

2008

A **T** Arkansas Teacher
R **S** Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Component Unit of the State of Arkansas

Prepared by the staff of Arkansas Teacher Retirement System

Paul V. Doane
Chief Executive Officer

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ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

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INTRODUCTION

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Letter of Transmittal

February 19, 2008

Board of Trustees
Arkansas Teacher Retirement System
1400 West Third
Little Rock, AR 72201

The Arkansas Teacher Retirement System (the 'System' or ATRS) is pleased to submit this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. It provides comprehensive information on the retirement plan that we administer. Responsibility for both the accuracy of the data and the completeness and fairness of presentation rests with the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and presents fairly the System's financial status and changes in financial condition.

The 2008 Financial Report is presented in five sections. Contents are summarized below (a detailed Table of Contents may be found on Page 2).

Introductory Section:

Contains this transmittal letter, organization chart and the Board.

Financial Section:

Provides the System's financial statements, required supplementary information, and supporting schedules with additional information about the System's expenses.

Investment Section:

Includes the investment consultant's report, investment policies, asset allocation, and investment results.

Actuarial Section:

Provides the certification letter from the independent actuary, supporting schedules, and a summary of plan provisions.

Statistical Section:

Presents schedules and tables of comparative data related to the membership, active and retired, of the System.

On March 17, 1937, ATRS was established by Act 266 of 1937. ATRS is a combination contributory/non-contributory retirement system governed by the State's retirement law, Chapter 24 of the Arkansas Code. ATRS is one of five State-supported retirement systems and provides retirement, disability and survivor benefits to employees of Arkansas public schools and educationally related agencies. The system consists of 343 participating employers (see pages 66 - 68).

Investments

Investments worldwide were dramatically affected by the implosion of the housing market, and subsequent sub-prime lending markets. Every major market in the world remains in a tumultuous state as the United States tries to work through these uncertain times.

Performance recorded by the Fund for the fiscal year, (3.7%), ranked in the top one-third of the funds in our peer group, a result of the asset allocation. ATRS has been in the process of reducing its' US equity correlation, and increasing exposure to global markets. Although, events occurring since June 30, 2008, have not been favorable.

Additions/Deductions to Plan Net Assets

As a retirement system matures, employer and employee contributions must be supplemented with investment earnings to fully fund retirement benefits and operating costs. This scenario leaves the investment nucleus untouched to continue providing the required investment income for future generations of plan participants.

Current year total contributions, \$350.3 million employer and \$108.9 million employee, covered 78.2% of the \$587.3 million in benefits paid, compared with 77.7% coverage last year. The small change is the result of a phasing in of the contribution for members still working but participating in the Teacher Deferred Retirement Option Plan (TDROP), and the ability for previous noncontributory members to elect to become contributory. Over the next few years this phased approach will put employer contribution levels for TDROP members in line with regular active members.

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Funding Status

The System lost a little ground in pre-funding as result of the negative market returns. To reduce the impact of wild swings in the financial markets, annual results are spread over a four-year period. This means the 2008 fiscal year's negative results will be felt over the next three years. Positive results from the previous three years helped off-set the current lost, therefore only a minimal decline occurred. ATRS remains a healthy 85% funded. Amortization required to fund the unfunded accrued actuarial liability (UAAL) increased 19 to 21 years.

Internal Control

Internal controls are at the heart of safeguarding the System's assets. Working in conjunction with a new state mandate, ATRS is reviewing and updating its control policies. As the System grows and technology advances we feel it prudent to continuously monitor internal systems and policies to detect and correct potential errors before they occur.

The newly developed internal Risk Management and Internal Audit Division began hiring and training its' staff. The division has, and will continue, to work closely with the Division of Legislative Audit (DLA) and other independent consultants.

Professional Services

The ATRS Board of Trustees employs firms considered experts in their field to draw on their knowledge and to get views of policy administration. The System's independent traditional investment consultant is Ennis + Knupp & Associates, headquartered in Chicago, IL, private equity consultants are Franklin Park, Associates, LLC of Bala Cynwyd, PA., and the independent actuary is Gabriel Roeder Smith & Company, headquartered in Southfield, MI. The system also utilizes the services of local legal and accounting firms for various projects.

Acknowledgments

This report is intended to provide complete and reliable information as a foundation for management decisions, determining compliance with legal provisions, and determining conscientious administration of the System's funds. Compilation of this report symbolizes the collective efforts of the staff, under the direction of the Board of Trustees.

Copies of this report are available to all members of the System via request, and copies will be mailed to each employer with members in the System.

Respectfully submitted:

Paul V. Doane
Chief Executive Officer

ARKANSAS TEACHER RETIREMENT SYSTEM

Board of Trustees

The authority and responsibility for the administration, management and control of the Arkansas Teacher Retirement System (ATRS), and for the construing and carrying out the provisions of the plan is vested in the Board of Trustees by Act 427 of 1973, as amended. The Board is comprised of 15 persons. The State Bank Commissioner, the State Treasurer, the State Auditor, and the State Commissioner of Education serve as ex officio trustees.

Act 418 of 1997 provides that eleven (11) members shall be elected to the Arkansas Teacher Retirement System Board of Trustees. Seven trustees (7) shall be active members of the system with at least five (5) years of credited service in force; three (3) shall be retirees receiving an annuity paid by ATRS who are residents of the State of Arkansas, and one (1) shall be of a minority racial ethnic group, and may be either an active or retired member.

Position #1
Member Trustee
1st Congressional District
Robin Nichols, Chair (Jonesboro)
Term Expires 6/30/2013

Position #2
Member Trustee
2nd Congressional District
Linda Parsons (Little Rock)
Term Expires 6/30/2010

Position #3
Member Trustee
3rd Congressional District
Janelle Riddle (St. Paul)
Term Expires 6/30/2013

Position #4
Member Trustee
4th Congressional District
Beverly Leming (Malvern)
Term Expires 6/30/2011

Position #5
Member Trustee
Superintendent
Dr. Richard Abernathy (Bryant)
Term Expires 6/30/2012

Position #6
Member Trustee
Administrator
Monty Betts (Searcy)
Term Expires 6/30/2009

Position #7
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Ellen Terry (Ft. Smith)
Term Expires 6/30/2009

Position #8
Member Trustee
Minority
Hazel Coleman (Helena)
Term Expires 6/30/2009

Position #9
Retirant Trustee
Dr. Paul Fair (Little Rock)
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Position #10
Retirant Trustee
Bobby Lester (Jacksonville)
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ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

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ARKANSAS TEACHER RETIREMENT SYSTEM

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ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

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ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

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ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

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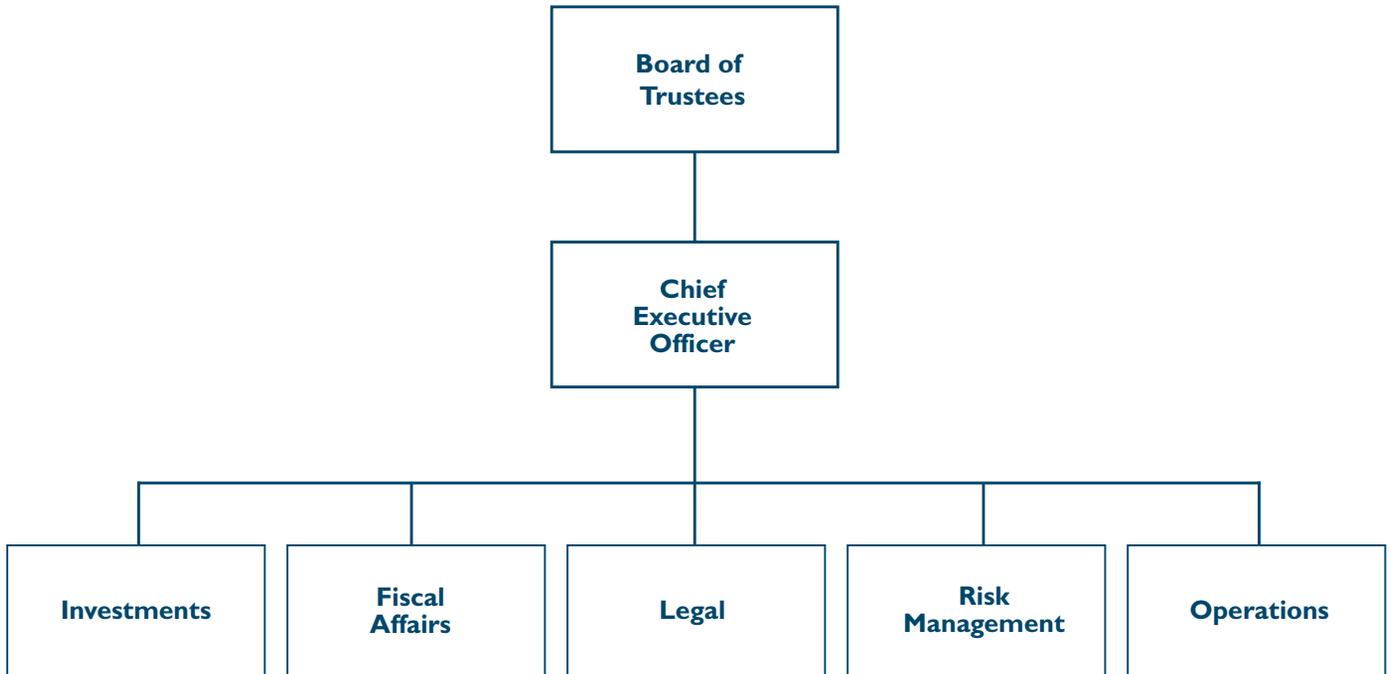
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ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Organizational Chart



Administrative Staff

Paul V. Doane
Chief Executive Director

Gail Bolden
Chief Operations Officer

Christa S. Clark
Chief Counsel

Suzanne Davenport
Chief Financial Officer

G. Wayne Greathouse
Director - Equity Investments

Mullahalli Manjunath
Director - Information Technology

Michael Ray
Manager - Member Services

George M. Snyder, CPA
Risk Management/Internal Audit

Gaye Swaim
Director - Human Resources



FINANCIALS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Statement of Plan Net Assets

As of June 30, 2008

	2008
Assets:	
Cash Held Outside the Treasury	\$ 7,240,498
Cash in Treasury	989,721
	<u>8,230,219</u>
Receivables:	
Other Receivables	271,531
Employer Contributions	55,140,851
Employee Contributions	15,669,831
Investment Principal Unsettled Trades	168,084,531
Interest and Dividends	18,131,028
Total Receivables	<u>257,297,772</u>
Securities Lending-Domestic & International	741,151,400
Total Investments at Fair Value	11,059,944,383
Net Property and Equipment	298,796
	<u>11,801,394,579</u>
Other Assets:	<u>116,346</u>
Total Assets	<u><u>\$12,067,038,916</u></u>
Liabilities:	
Accounts Payable	\$ 7,814,668
Accrued Expense - Escrow	39,395
	<u>7,854,063</u>
Investment Principal Payable	299,945,117
Securities Lending Collateral	741,151,400
	<u>1,041,096,517</u>
Total Liabilities	<u>\$ 1,048,950,580</u>
Net Assets Available for Benefits	<u><u>\$11,018,088,336</u></u>

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Statement of Changes in Plan Net Assets for the Fiscal Year Ended June 30, 2008

	2008
Additions:	
Contributions:	
Employer	\$ 350,319,504
Employee	108,872,293
Total Contributions	<u>459,191,797</u>
Investment Income:	
Net Appreciation (Depreciation) in Fair Value of Investments	(638,903,280)
Interest	100,459,546
Dividends	78,723,976
Real Estate Operating Income	6,455,808
Other	8,564,945
From Securities Lending Activities:	
Lending Income	50,597,153
Less Rebate & Fees	<u>(43,854,101)</u>
Less Investment Expense	<u>(39,623,490)</u>
Net Investment Income	<u>(477,579,443)</u>
Total Additions	(18,387,646)
Deductions:	
Annuity Benefits	587,319,942
Refund of Employer Contributions	623,154
Refund of Employee Contributions	5,838,968
Administrative Expenses	<u>6,676,667</u>
Total Deductions	<u>600,458,731</u>
Net Increase (Decrease)	(618,846,377)
Net Assets available for Benefits	
Beginning of year	<u>11,636,934,713</u>
End of year	<u><u>\$11,018,088,336</u></u>

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Notes to Basic Financial Statements

June 30, 2008

I. DESCRIPTION OF PLAN

The following is a description of the Arkansas Teacher Retirement System (ATRS). Members should visit the ATRS web-site (www.atrs.state.ar.us) for complete information regarding specific plan provisions.

General Information

ATRS is a cost-sharing, multiple employer, defined benefit pension plan established by authority of the Arkansas General Assembly on March 17, 1937, pursuant to Act 266 of 1937. ATRS operates as a qualified trust under IRS Code § 401(a) and is a component unit of the State of Arkansas. ATRS appropriations are funded by its trust assets.

ATRS plan provisions are established by the General Assembly. The governing statutes for the plan are codified at Arkansas Code Annotated § 24-7-101 –1409 (Lexis 2007). ATRS provides age and service retirement benefits, disability retirement benefits, survivor benefits, and lump sum death benefits for public school employees and other educationally-related employees. The ATRS plan also includes a Teacher Deferred Retirement Option Plan (T-DROP) for eligible employees.

Membership

ATRS is a mandatory retirement plan for full-time employees of the following entities:

- Arkansas Activities Association
- Arkansas Department of Education
- Arkansas Department of Correction School
- Regional Educational Cooperatives
- Arkansas Educational Television Commission
- Arkansas Public Schools
- Arkansas School for the Blind
- Arkansas School for the Deaf
- Arkansas Teacher Retirement System
- State Board of Education

Certain employees of other employers may qualify to participate in ATRS including Vocational-Technical schools, Public Colleges and Universities, Department of Workforce Education, Easter Seals of Arkansas, Arkansas Rehabilitation Services.

At June 30, 2008, the latest actuarial valuation date, the total membership was as follows:

The total number of participating employers was 344.

The number of participating employees included

Retirees or beneficiaries receiving annuity benefits	26,801
T-DROP participants	4,630
Inactive plan members (not receiving benefits)	11,688
Active plan members (not retired)	<u>70,172</u>
Total	<u><u>113,291</u></u>

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

DESCRIPTION OF PLAN (Continued)

ATRS members are contributory or non-contributory based on their employment status. Contribution rates are set by the statutes as enacted by the General Assembly. The employee contribution rate for contributory members is currently six percent of gross earnings. As of July 1, 1997, all member contributions are tax-deferred and deposited in the Member Deposit Account. Non-contributory members make no contributions to ATRS, but the employer contribution rate still applies.

All participating employers pay the employer contribution rate for eligible employees in accordance with ATRS laws and regulations. The contribution rate for participating employers is currently 14% of the member's gross earnings.

Vesting

Five (5) years of Arkansas service credit is required for vesting purposes. Out of state, overseas, private school, sabbatical leave, or military service may not be used for vesting purposes.

Retirement, Disability, and Survivor Benefits

ATRS is a defined benefit pension plan that offers the following types of benefits: age and service retirement annuities, disability retirement annuities, survivor annuities, and lump sum death benefits. The retirement benefits are based on a member's years of credited service and the highest average salaries. ATRS members may currently retire after 28 years of service or after age 60 if vested.

Disability retirement benefits are payable to members who are vested and demonstrate total and permanent incapacity to perform the duties of his/her position while in active employment.

Survivor benefits are payable to qualified survivors upon the death of an active, vested member. Survivors receive a survivor annuity that is based on the member's years of service credit prior to his/her death.

ATRS also provides a lump sum death benefit for ATRS active and retired members with 10 years of credited service. The amount for contributory members will be up to \$10,000 for contributory members and up to \$6,667 for non-contributory members.

Teacher Deferred Retirement Option Plan (T-DROP)

T-DROP was designed to encourage employees to delay retirement and continue working in covered employment. Members having 28 or more years of service credit may elect to participate in T-DROP. T-DROP freezes the member's retirement benefits while the member continues in covered employment. During each month in T-DROP, a large portion of the amount the member would have received as a retirement annuity is deposited into a tax-deferred account. The T-DROP account accrues interest at a variable rate that is set annually by the ATRS Board of Trustees based on the applicable rate of return. A member may participate in T-DROP for a maximum of 10 years.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The management of the System is the responsibility of the fifteen member Board of Trustees (Board). The Chief Executive Officer of the System is appointed by the Board and oversees the day to day administration with the assistance five Senior Division Officers.

Basis of Accounting

Financial statements for ATRS are prepared using the accrual basis of accounting. Contributions, or receivables, are recognized when due and a formal commitment is extended for payment. All contributions are considered fully collectable, therefore no allowance for doubtful accounts is necessary. Expenses, including benefits and refunds, are recognized when due and payable in accordance with the plan outline.

Administrative Expenses

Expenses incurred administrating the System are budgeted and approved by the Arkansas General Assembly. Funds expended by ATRS are from the trust and not taken directly from the general revenues of the state.

Investments

Investments are reported at fair value. Cash and equivalents having a maturity of three months or less when purchased are reported at cost. Fair market is determined using pricing services, when available, historical costs adjusted for market trends, independent third-party appraisals, and independent brokers and industry experts.

ATRS revised the method used to reflect market values of alternative investments during the current fiscal year. In conjunction with the investment consultant and Credit Suisse, returns were recomputed for each fund from inception through the current year. Therefore, historical total fund returns may vary slightly from returns reported in prior years.

Derivatives

ATRS does not employ an active investing policy utilizing derivatives. Various managers are permitted to use foreign currency futures selectively to hedge risks in the markets caused by timing differences. As of June 30, 2008, ATRS had open forward exchange contracts with an unrealized loss of approximately \$2,146,748.

Equipment

Equipment costing \$2,500 and more is capitalized at the original cost and depreciated over its useful life using the straight-line method. Useful lives of assets are stipulated in the Arkansas Administrative Information System (AASIS).

Tax Status

The System is classified as a Section 401(a) pension trust under the Internal Revenue Code (the "code"). ATRS qualified under Section 501(a) of the code, and was exempt from federal income taxes for the year ended June 30, 2008.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

3. DEPOSITS AND INVESTMENTS

For the year ended June 30, 2005, ATRS implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB No. 3. The implementation of GASB 40 requires additional disclosures but had no impact on the reported amounts of investments, net assets, or changes in net assets.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, ATRS' deposits may not be returned to it. ATRS maintains accounts in trust for the benefit its members and is therefore not limited to the \$100,000 total insured limit as set by the Federal Deposit Insurance Corporation (FDIC). Therefore, all cash maintained in deposit is fully insured by the FDIC.

The following is a reconciliation of the carrying value of cash and investments at June 30, 2007.

As presented in Statement of Plan Net Assets:	
Cash and cash equivalents	\$ 8,190,824
Investments	<u>11,059,944,383</u>
Total	\$ <u>11,068,135,207</u>

As presented below:	
Deposits	\$ 2,438,088
Investments	<u>11,065,697,119</u>
Total	\$ <u>11,068,135,207</u>

Below is a summary of deposits as of June 30, 2008.

Carrying amount	<u>\$ 2,438,088</u>
Bank balance	<u>\$ 1,565,389</u>
Amount insured or collateralized (Category 1)	<u>\$ 1,565,389</u>
Amount uninsured	<u>\$ 0</u>

Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ATRS sets individual limits on its money managers as to the minimum level of credit risk the overall portfolio must maintain utilizing a nationally recognized credit rating firm.

Concentration of credit risk is the risk of loss attributable to the magnitude of ATRS' investment in a single user. There was no concentration of credit risk at June 30, 2008.

Following are tables classifying the credit risk exposure at June 30, 2008, as rated by Standard and Pools.

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 269,493,105
AA	38,101,731
A	98,923,315
BBB	106,275,063
BB	78,896,804
B	54,843,753
CCC	14,607,706
Not Rated	222,717,473

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

3. DEPOSITS AND INVESTMENTS (continued)

The following table presents the System's investments as of June 30, 2008, categorized to give an indication of the level of risk assumed. ATRS invests in mortgages, asset backed securities (ABS), and collateralized mortgage obligations (CMO) as part of the overall strategy. Market value of these investments is heavily tied to interest rates. At June 30, 2008, ATRS had approximately \$469 million invested in these securities.

The categories of risk are:

1. Insured or registered investments, or securities held by the System or its agent in the System's name.
2. Uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the System's name.
3. Uninsured and unregistered investments, with securities held by the counterparty in the System's name or held by the counterparty's trust department or agent but not in the System's name.

	<u>ATRS Securities</u>		
	<u>Of Record</u>	<u>Loaned</u>	<u>Adjusted</u>
Category I			
Domestic equities	\$2,759,472,070	\$596,121,082	\$1,999,267,607
International equities	566,927,181	23,255,096	705,608,718
Commingled funds	4,470,746,646	-	4,470,746,646
Corporate bonds	159,720,483	80,421,420	79,299,063
Government securities	4,166,354	10,966,179	(6,799,825)
Cash equivalents – Repurchase agreements	532,413,274	-	532,413,274
Convertible corporate bonds	310,525,638	-	310,525,638
Mortgage back/ABS/CMO	409,446,476	-	409,446,476
Options	806,862	-	806,862
Not subject to classification			
Limited partnerships	762,064,758	-	762,064,758
Timber	267,384,443	-	267,384,443
Real estate	1,019,896,577	-	1,019,896,577
Mortgage loans	59,799,813	-	59,799,813
Other investments	6,125,000	-	6,125,000
Cash	5,752,736	-	5,752,736
	<u>\$11,065,697,120</u>	<u>\$710,763,777</u>	<u>\$10,354,933,343</u>
Collateral for lent securities			
Government securities-cash	-	-	\$11,153,540
Domestic equities-securities & corp bonds-securing	-	-	7,798,124
Corporate bonds-cash	-	-	82,315,577
Corporate bonds-letter of credit & domestic equity	-	-	4,555,793
International equities-cash	-	-	24,963,949
International-securities	-	-	50,312,451
Domestic equity-cash	-	-	622,718,333
Domestic equity & corp bonds-Tri-Party	-	-	2,267,864
Government-Tri-party	-	-	17,374,871
	<u>\$11,065,697,120</u>	<u>\$710,763,777</u>	<u>\$ 823,460,502</u>

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

3. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. As of June 30, 2008, ATRS had the following debt investments and maturities.

Investment Type	Fair Value	Investment Maturities (in years)			
		1 to 5	6 to 10	> 10	
US Government Agencies	\$266,218,608	\$ -	\$ 1,825,135	\$42,133,677	\$222,259,796
Government Issues	4,166,354	-	-	3,722,836	443,518
Mortgages	59,779,813	25,062,992	10,175,454	24,541,367	-
Corporate Issue, Asset Backed & Convertibles	613,473,987	14,482,872	148,112,289	156,028	294,850,415
Commingled Funds	2,120,672,083	269,991,965	311,390,611	1,364,651,504	174,638,003
Commingled Funds – Securities Lending	741,151,400	741,151,400	-	-	-

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. ATRS does not have a formal investment policy for foreign currency risk. The exposure to foreign currency risk for investments and deposits at June 30, 2008, is as follows:

Currency	Fair Value	Equities	Contracts	Cash
Australian dollar	\$ 6,250,160	\$ 6,161,313	\$ -	\$ 88,847
Brazilian real	9,010,317	8,786,419	-	223,898
Canadian dollar	21,226,355	21,126,214	-	100,141
Swiss franc	93,651,761	56,765,094	35,968,081	918,586
Danish krone	5,956,138	-	5,954,287	1,851
Euro currency	277,429,577	181,637,874	93,512,668	2,279,035
Pound sterling	129,853,524	79,580,429	50,265,507	7,588
Hong Kong dollar	74,778,532	40,258,286	34,326,631	193,615
Hungarian forint	357	-	-	357
India rupee	781,874	-	-	781,874
Indonesian rupiah	18,055,727	18,055,727	-	-
Japanese yen	155,145,996	95,189,906	59,522,137	433,954
South Korean wan	3,070,146	3,070,096	-	50
Malaysia ringgit	7,234,142	-	7,234,142	-
Norwegian krone	13,511,352	6,727,083	6,316,577	467,962
New Zealand dollar	3,088	-	-	3,088
Swedish krona	37,507,173	5,731,859	31,775,277	37
Singapore dollar	16,951,764	16,950,238	-	1,526
South African rand	7,772,416	2,443,844	5,328,558	14
New Tiawan dollar	18,120,898	17,583,250	-	537,649
Thailand baht	4,633,679	4,633,653	-	26

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

4. SECURITIES LENDING ARRANGEMENTS

The System participates in a securities lending program administered by State Street Bank and Trust Company (State Street or 'custodian'). Securities lending involves the transfer of investment securities to an independent broker, or dealer, in exchange for collateral equal to 100% of the market value at the time of transfer. Market values of the collateral and transferred securities as of June 30, 2008, were \$823,460,503 and \$793,921,749, respectively.

Risks associated with a securities lending program include borrower bankruptcy, collateral deficiencies, settlement problems, and corporate actions. ATRS has minimized its exposure to credit risk due to borrower default by having the custodian value the collateral daily to ensure the value remains 100% or more of the value of the transferred securities.

5. RELATED PARTY TRANSACTIONS

State of Arkansas Department of Education had a loan outstanding from ATRS with a balance of \$9,606,150 as of June 30, 2008. During the fiscal year ATRS paid the Department of Information Services approximately \$58,642 for data processing services.

6. LEGALLY REQUIRED RESERVES

State law requires the net assets held in trust for pension benefits to be recorded in the five (5) accounts listed below. As of June 30, 2008, the accounts had the following balances:

Members' deposit account	\$ 7,285,588,106
Employers' accumulation account	(1,472,122,558)
Retirement reserve account	5,126,049,315
Survivor benefit account	64,084,144
Income-expense account	14,489,329
Net assets held in trust for pension benefits	<u>\$ 11,018,088,336</u>

7. COMMITMENTS AND CONTINGENCIES

As of June 30, 2008, ATRS was committed to purchase investments and return securities lending collateral at an aggregate cost of approximately \$1.123 billion.

8. SUBSEQUENT EVENTS

Subsequent to the June 30 fiscal year end, the financial markets experienced an unprecedented decline in value. The markets are fluid and dynamic and any judgment of the financial statements must be based on current information rather than fiscal year end data reported. The reader of the information contained in this report is encouraged to check with the Agency for the most current information. To select a point in time, as of September 30, 2008, the investment portfolio had declined \$1.2 billion to \$9.6 billion, excluding securities lending collateral.

As the financial and credit crisis initiated by the subprime mortgage meltdown approached the one-year anniversary, the financial crisis of 2008 worsened. ATRS had minimal exposure to financial institutions that were either acquired by another institution, the U.S. Government, or filed for bankruptcy. Assessment to determine permanent impairment is ongoing; however, the final value is not certain until all the processes have been completed. After June 30, the more noteworthy institutions that declined in value were American International Group (AIG), Lehman Brothers, and Washington Mutual.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

The overall risk of the ATRS investment portfolio has not changed from June 30, 2008. Since the global capital markets are highly fluid and change in value daily, the value of the ATRS investment portfolio changes everyday. As the globe experiences historic volatility due to the financial crisis, the ATRS portfolio will change in value. The overriding investment philosophy followed by the System continues to center on long held principles of diversification and the search for long-term value. The broad diversification helps protect the investment portfolio and dampens the day-to-day vagaries of the global financial markets.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Required Supplementary Information

Schedule I - Schedule of Funding Progress (Dollar Amounts in Millions)

UAAL as a Actuarial Valuation Date June 30	Actuarial Value of Assets(a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (AAL) (b-a)	Funding Ratio (a/b)	Annual Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
1996	4,186	4,635	449	90.3%	1,260	35.6%
1997+*	4,956	5,403	447	91.7%	1,302	34.3%
1998+*	5,815	6,188	373	94.0%	1,368	27.3%
1999+	6,740	6,834	94	98.6%	1,429	6.6%
2000	7,620	7,580	(40)	100.5%	1,485	-
2000+	7,620	7,879	259	96.7%	1,485	17.4%
2001	8,166	8,469	303	96.4%	1,557	19.5%
2001+	8,166	8,561	395	95.4%	1,557	25.4%
2002	8,328	9,170	842	90.8%	1,628	51.7%
2002*	8,328	9,062	734	91.9%	1,628	45.1%
2003	8,263	9,672	1,409	85.4%	1,683	83.7%
2003*	8,113	9,445	1,332	85.9%	1,683	79.1%
2004	8,424	10,050	1,626	83.8%	1,863	87.3%
2005	8,817	10,973	2,156	80.4%	1,962	109.9%
2006	9,332	11,623	2,291	80.3%	2,080	110.1%
2007+	10,519	12,329	1,810	85.3%	2,191	82.6%
2008	11,319	13,334	2,015	84.9%	2,268	88.8%

+ Legislated benefit increase.

* Revised actuarial assumptions.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Required Supplementary Information (continued)

Schedule 2 - Schedule of Employer Contributions

(\$ Millions)

Year Ended June 30 Contributed	(A) Covered Payroll BOY	(B) Rate	(C)=BxA Annual Required Contribution*	(D) Actual Contributions	(D)/(C) Perce
1996	1,234	12%	148.08	132.60	89.5%
1997	1,260	12%	151.20	153.50	101.5%
1998	1,302	12%	156.24	159.00	101.8%
1999	1,368	12%	164.16	166.80	101.6%
2000	1,429	12%	171.48	175.70	102.5%
2001	1,485	12%	178.20	181.10	101.6%
2002	1,557	12%	186.84	191.35	102.4%
2003	1,628	12%	195.36	200.46	102.6%
2004	1,677	13%	218.04	224.18	102.4%
2005	1,748	14%	244.72	286.44	117.0%
2006	1,962	14%	274.68	311.71	113.51%
2007	2,080	14%	305.76	331.89	108.5%
2008	2,191	14%	318.57	350.32	101.8%
2009	2,268	14%	344.03	N/A	N/A

*The Annual Required Contribution dollar amount is based on estimated projected payroll. Actual contributions will be based on pay actually paid throughout the year which may be different.

ARKANSAS TEACHER RETIREMENT SYSTEM

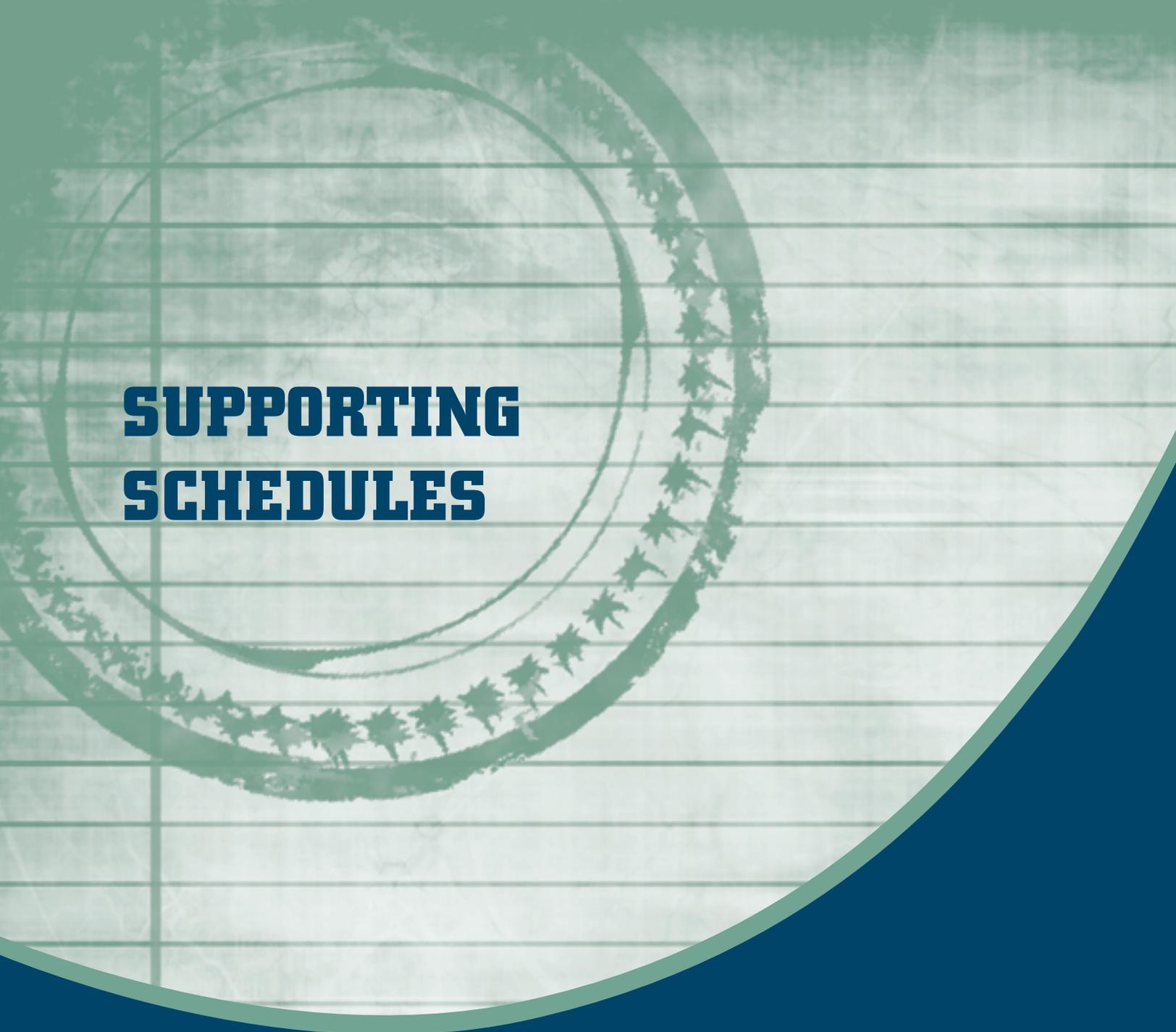
ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Required Supplementary Information (continued)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Schedule 3 - Notes to Trend Data

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age
Amortization Method	Level percent of payroll
Remaining Amortization Period	21 years
Asset Valuation Method	4-year smoothed market 80%/120% Corridor
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Cost-of-living adjustments	3.0% Simple
Projected Salary Increases*	4.0% to 10.1%
*Includes inflation at	4.0%



SUPPORTING SCHEDULES

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule 4 - Schedule of Administrative Expenses

Fiscal Year ended June 30, 2008

Personnel Services:	
Staff Salaries	\$ 2,990,382
Employee Benefits	<u>1,239,691</u>
Total Personnel Services	4,230,073
Professional Services:	
Actuary	\$ 237,300
Data Processing	605,911
Other Professional Services and Fees	<u>80,630</u>
Total Professional Services	923,841
Miscellaneous:	
Rent Expense	\$ 564,794
Communication Expenses	353,424
Travel Expense	172,787
Equipment Expense	135,842
Other Operating Expenses	<u>295,906</u>
Total Miscellaneous	1,552,753
Total Administrative Expenses	<u>\$ 6,676,667</u>

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule 5 - Schedule of Investment Expenses

Fiscal Year Ended June 30, 2008

Investment Counsel	\$ 1,354,112
Professional Services:	
International	9,624,412
Alternative Investment	7,321,198
Domestic Equity	18,372,374
Custodian Fee	969,682
Real Estate Expense	2,951,394
Security Lending	<u>42,884,419</u>
Total Professional Services	<u>82,123,479</u>
Total Investment Expense	<u>\$ 83,477,591</u>

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule 6 - Schedule of Payments To Consultants

Fiscal Year Ended June 30, 2008

Individual or Firm Professional Services:	Commission/Fee
Actuary	
Gabriel, Roeder, Smith & Company	\$ 237,300
Other	—
	<hr/>
	237,300
Data Processing	
Rhoden Technologies	356,897
Princeton Financial	132,122
Oracle	31,113
IBM	18,843
Other supplies/services	66,936
	<hr/>
	605,911
Other Professional Services and Fees	
Heathcott Associates	25,891
University of Arkansas	19,935
Thomas and Thomas	19,555
Other	15,249
	<hr/>
	80,630
Total	<hr/> <hr/>
	\$ 923,841



INVESTMENTS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

ENNISKNUPP & ASSOCIATES

November 19, 2008

Board of Trustees
Arkansas Teacher Retirement System
1400 West Third Avenue
Little Rock, AR 72201

Market Overview

The broad U.S. equity market struggled during 2008, posting a return of -12.5%. During the first quarter of the fiscal year, the market was shaken during the collapse of the sub-prime market and lack of liquidity in the credit markets. A surprise 50 basis point reduction in the Federal Funds rate on September 18th, fueled a late quarter rally, which resulted in a positive return for the U.S. markets. During the remainder of the fiscal year, recessionary fears and credit concerns dominated the markets. The U.S. government took several steps to stimulate the economy including further reductions in the Federal Funds rate. In total, the Fed Funds rate was reduced 300 basis points during the fiscal year. By the end of the fiscal year, continued economic woes ensued as corporate profitability and the availability of credit weighed on the market. Oil and commodity prices continued to skyrocket, which caused consumers to curtail spending despite government stimulus rebate checks arriving at taxpayers' doorsteps. For the fiscal year, the energy sector was the largest positive contributor to the return of the Dow Jones Wilshire 5000 Index, while the financial sector was the largest negative performer. On a style and capitalization basis, large cap stocks outperformed their small cap counterparts and growth stocks outperformed value during the fiscal year.

International stocks continued to post more favorable returns relative to the U.S. equity market as the MSCI All Country World ex-U.S. Index declined 6.6% during the fiscal year. International returns, relative to U.S. returns were helped by the decline in value of the U.S. dollar. Growth continued in emerging markets across the world as the MSCI Emerging Markets Index produced strong returns, advancing 4.6% during fiscal year 2008.

The U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, advanced 7.1% during fiscal year 2008. During the first half of the fiscal year, the Index enjoyed strong performance led by U.S. government securities as investors sought a flight-to-quality during the market turmoil. By the fourth quarter of the fiscal year, the asset class lost 1.0% as the process of de-leveraging affected the credit markets, while financial institutions simultaneously reduced their holdings of mortgages and other structured products.

Overview of Fund Structure

The ATRS portfolio is diversified across several asset classes including U.S. equity, global equity, fixed income, and alternative investments. Within these asset classes, the investments are further diversified amongst different investment types and styles. A variety of investment firms are also employed within each category to minimize manager- and firm-specific risk. We believe the diversification level and general risk level of the fund structure to be appropriate for a fund of this type

During the fiscal year 2008, some changes were made in manager structure as the portfolio shifted strategies to broader mandates. In particular, the portfolio shifted the non-U.S. portion of the portfolio to the new global asset class. Specifically, the following changes to the investment manager lineup occurred during fiscal year 2008:

- The State Street Global Advisors Wilshire 5000 Index was transitioned to the State Street Global Advisors Global Index
- An options strategy was added as an overlay to the existing Oppenheimer Capital Management Large Cap Value strategy
- The Eubel Brady and Suttman Midcap Value Portfolio was terminated due to poor performance and was used in part to fund new activist manager mandates

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

- The Jacobs Levy Large Cap Growth strategy was transitioned to a broader Russell 3000 mandate, with a portion of the portfolio invested in the Jacobs Levy 130/30 strategy
- Relational Investors was funded at the end of the fiscal year with proceeds from the termination of Eubel, Brady and Suttman
- The Wellington International strategy was transitioned to the Wellington Global Research strategy, with a portion invested in the Wellington Global Opportunistic strategy
- The UBS International strategy was transitioned to the UBS Global strategy
- The Capital Guardian U.S. Equity Large Cap Growth strategy and the Capital Guardian International strategy were transitioned to the Capital Guardian Global strategy
- A portion of the assets of the three active fixed income managers, Blackrock, Western, and PIMCO, were transitioned to opportunistic strategies, which include Blackrock FIGO, Western Absolute Return, and PIMCO PARS II

ATRS Performance Overview

During the fiscal year of 2008, the Total Fund returned -3.7%, outperforming the -4.7% return of the Performance Benchmark and the -4.1% return of the Mellon Analytical Solutions Public Fund Index. The Mellon Analytical Solutions Public Fund Universe represented 75 funds with an aggregate market value of \$474.6 billion. The total fund ranked at the 35th percentile out of the 75 funds represented in the universe. Longer-term performance was favorable as the Total Fund return exceeded that of the Performance Benchmark for the three- and five-year periods.

The non-U.S. and global equity managers produced a return of 26.8% during the fiscal year of 2008. While this return was strong on an absolute basis, it trailed that of the broad non-U.S. equity market as all three non-U.S. equity managers underperformed their benchmarks. However, the asset class has added value relative to the benchmark since inception.

The overall fixed income component returned 6.5% during fiscal year 2008 outperforming the return of the Lehman Brothers Universal Index by 30 basis points as BlackRock and PIMCO underperformed their benchmark while Western and the SSgA Bond Market Index approximated their benchmarks during the fiscal year.

The ATRS private equity component outperformed its benchmark returning 20.4% for the fiscal year, while total real estate advanced 2.7%, significantly underperforming the NCREIF NPI Index.

It continues to be our pleasure serving the ATRS, and we look forward to many more years of service.

Sincerely,



Patrick J. Kelly, CFA

Principal

PJK:cm

Investment Policies and Procedures

STATEMENT OF INVESTMENT POLICY

This Investment Policy has been prepared within the context of applicable Arkansas laws and is intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure that both prudence and care are maintained in the execution of the investment program. While safety of principal is given primary consideration, the Board may take appropriate levels of risk to earn higher levels of investment return.

The Board has arrived at this policy through careful study of the rates of return and risks associated with various investment strategies in relation to the current and projected liabilities of the Retirement System. This policy has been chosen as the most appropriate for achieving the financial objectives of the Retirement System.

The Board has adopted a long-term investment horizon so that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of the Retirement System will be invested in a manner that provides the safeguards and diversity to which a prudent investor would adhere. All transactions undertaken on behalf of the Retirement System will be in the sole interest of the members of the Retirement System.

The Retirement System shall manage those assets not specifically allocated to investment managers. Notwithstanding the provisions of this Investment Policy, the Board may direct a specific investment activity and shall be fully responsible for any such action.

To achieve the overall goal of the Retirement System as it pertains to investments, one or more investment consultants may be retained by the Board. The scope of duties, together with the terms and conditions of engagement, of any investment consultant will be set forth in a contract approved by the Board.

Standard of Care

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting monies in the fund and in acquiring, retaining, managing and disposing of investments of the fund there shall be exercised care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting trust assets and in acquiring, retaining, managing and disposing of investments of the trust assets, there shall be exercised the reasonable care, skill, and caution that a prudent investor would use after considering the purposes, terms, distribution requirements, and other circumstances of the trust. Investment and management decisions respecting individual assets shall be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust. The investments of the trust shall be diversified unless the trustees reasonably determine that, because of special circumstances, the purposes of the trust are better served without diversifying. The trust assets shall be invested and managed solely in the interest of the members and benefit recipients of the trust.

Investment and management functions may be delegated to an agent that a prudent trustee of comparable skills could properly delegate under the circumstances. When making such delegation, Trustees shall establish the scope and terms of the delegation, consistent with the purposes and terms of the trust, and shall monitor the agent's performance and compliance with the terms of the delegation. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

The standard of care set forth herein shall be applied by each party serving in a fiduciary capacity for the trust.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

INVESTMENT POLICIES AND PROCEDURES (continued)

Asset Allocation

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will – over time – provide the appropriate risk-adjusted return to the Retirement System.

It shall be the goal of the System to maintain the following asset allocation ranges:

Asset Category	Minimum	Target	Maximum
Domestic Equity	20.0%	25.0%	30.0%
Global Equity	25.0%	30.0%	25.0%
Domestic Fixed Income	15.0%	20.0%	25.0%
Alternatives	2.0%	5.0%	8.0%
Real Estate	7.0%	10.0%	13.0%
Private Equity	7.0%	10.0%	13.0%
Cash Equivalents	0.0%	0.0%	5.0%

Rebalancing

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will – over time – provide the appropriate risk-adjusted return to the Retirement System. The Executive Director is responsible to rebalance among the allowable asset classes and the individual portfolios at such time that any of the asset classes falls outside of the designated range. The Executive Director will monitor the asset values by classification and for each asset manager on a monthly basis, based on month-end data provided by the custodial bank, and report to the Board any movement of funds necessary to carry out any rebalancing.

Goals

The overall goal is to achieve, over a period of years, the greatest rate of return for the Retirement System with due consideration being given to preserving capital and its purchasing power and to maintain an element of risk at a prudent investor level.

The System's actuary sets an expected return based on the Board's policy decisions. Market cycles may result in the Retirement System earning a return materially above or below the actuarial rate of return for extended periods of time. Therefore, the actuarial rate of return will not be used for performance comparison purposes.

Domestic Equity

The manager structure of the domestic equity portfolio's risk and style exposure should resemble the aggregate domestic equity market as measured by the Dow Jones Wilshire 5000 Index. To help achieve this goal, the Board will employ managers utilizing various or multiple capitalization (small, mid, and large) and investment styles (growth and value) so that the overall size and capitalization structure of the total component will approximate that of the broad market.

The goal for domestic equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic equity market as measured by the Dow Jones Wilshire 5000 Index over a full market cycle (approximately five years).

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

INVESTMENT POLICIES AND PROCEDURES (continued)

Global Equity

The manager structure of the aggregate global equity portfolio's risk and style exposure should resemble the aggregate global equity market as measured by the Morgan Stanley Capital International All Country World Index. To help achieve this goal, the Board will employ managers that invest in a broad array of countries (domestic, developed and emerging markets), capitalization (small, mid, and large), and style (growth and value) so that the overall style and capitalization structure of the total component will approximate that of the broad global market. An active management strategy for global equity investments will be used.

The goal for global equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate global equity market as measured by the Morgan Stanley Capital International All Country World Index over a full market cycle (approximately five years).

Fixed Income

The manager structure of the aggregate fixed income portfolio's risk exposure should resemble the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index. To help achieve this goal, the Board will employ managers that invest assets in a broad array of sectors (government, mortgage backed, credits, asset backed, and commercial mortgage backed bonds), maturities, and credit qualities so that the overall portfolio structure is not materially different from that of the domestic fixed income market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the fixed income assets to a passive investment portfolio that approximates the return of the broad fixed income market.

Fixed Income Active/Passive Allocation (as a percent of the fixed income portfolio)

	Minimum	Target	Maximum
Active Component	85%	90%	95%
Passive Component	5%	10%	15%

The goal for fixed income investments shall be to achieve a total rate of return that will exceed, net of all costs and fees, the return of the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index over a full market cycle (approximately five years).

Alternative Investments

Alternative investments currently include investment in timberland. The system may initiate direct ownership in timberland or indirect investments in fund of funds, partnerships, corporations, or real estate investment trusts investing in investment grade properties of like kind.

The goal of the timberland investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Southeast Timberland NCREIF index over a full market cycle (approximately five years).

In the future, this asset class may include additional asset strategies including, but not limited to, hedge fund of funds, infrastructure, commodities, and currency.

Real Estate

The system may initiate direct ownership in raw land, commercial, industrial, and residential properties or indirect investments in fund of funds, partnerships, corporations, or real estate investment trusts investing in investment grade properties of like kind.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

INVESTMENT POLICIES AND PROCEDURES (continued)

Total real estate investments shall not exceed the system's approved asset allocation as determined by the Board at the beginning of each fiscal year. Should the real estate allocation be exceeded, no additional real estate investments shall be entered into until the asset allocation exceeds the total real estate investments.

The goal of the real estate investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic real estate market as measured by the NCREIF National Property Index over a full market cycle (approximately five years).

Private Equity

The structure of alternative investments should include domestic and foreign private equity partnerships, venture capital, and mezzanine financing partnerships to diversify the assets and reduce the likelihood of material losses in any individual investment classification.

The goal for alternative investments is to achieve a total rate of return that will exceed, net of all costs and fees, the return of the public equity markets, as measured by the Wilshire 5000 Index, plus a liquidity premium of 2.0% per year.

Cash Equivalents

The system may hold direct ownership in short-term investments or may permit or require managers to hold cash or cash equivalents to meet liquidity needs of the manager or of the System.

The goal of the cash management shall be to preserve capital and maintain liquidity.

Arkansas-Related Investments

The System may initiate Arkansas-related mortgage loans, direct real estate investments, or purchase insured certificates of deposit or short term securities of Arkansas financial institutions to meet the goals of the mandated requirements. Arkansas-related investments are now categorized according to the appropriate asset class for each investment.

Commingled or Mutual Funds

If a commingled fund or mutual fund is utilized, it is understood that the portfolio will be governed by the prospectus or similar document for the fund. In those cases, the System will utilize the ATRS Investment Guidelines in selecting and evaluating funds initially and in monitoring them on an on-going basis for continued suitability. If the assets of the commingled or mutual fund participate in securities lending, the cash collateral should be prudently invested to avoid risk of loss.

Derivatives

Derivatives may be used to reduce the risk in a portfolio. At no time shall derivatives be used to create a position of leverage or substantially increase the risk of the overall portfolio. Each investment manager's derivative usage shall be specified in the investment management agreement or specific guidelines.

The use of futures and options shall be matched by cash or cash equivalent securities, and all short futures positions shall be matched by equivalent long security positions. Option premiums outstanding at any given time shall be limited to less than 5% of the market value of the total portfolio. The notional value of the underlying securities of the futures contracts shall not exceed 15% of the market value of the total portfolio.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

INVESTMENT POLICIES AND PROCEDURES (continued)

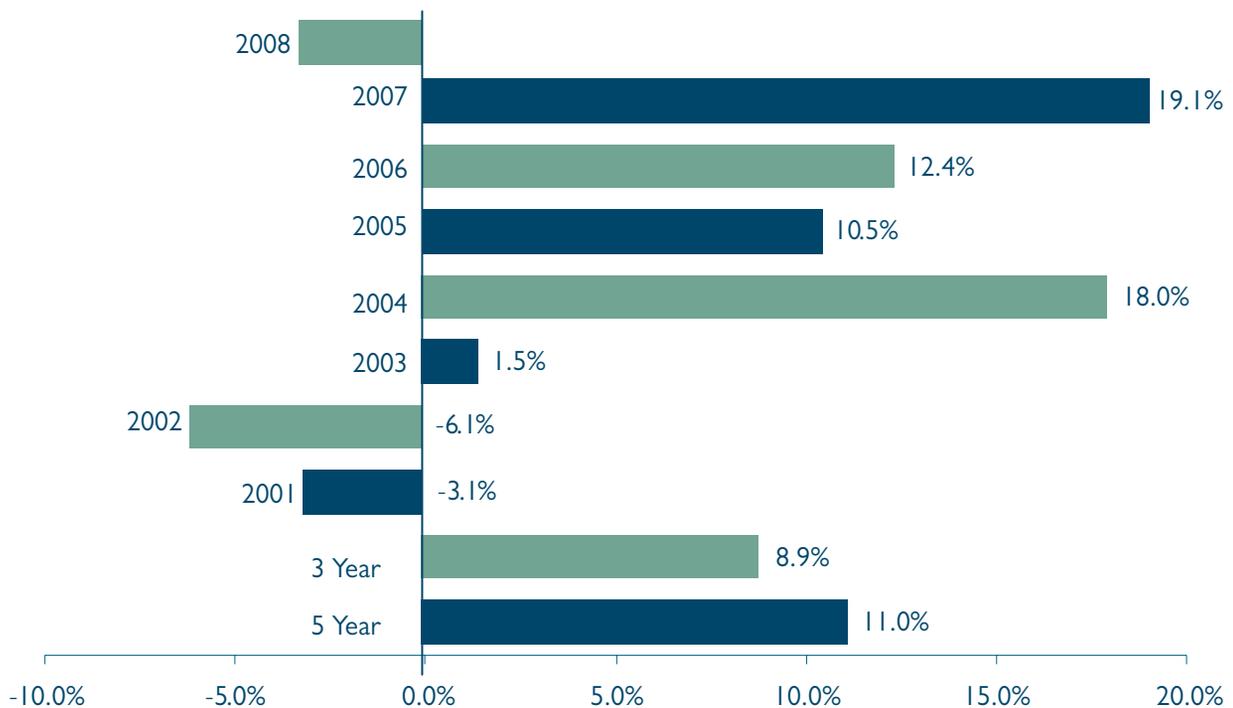
Loaning of Securities

To increase investment income with minimal risk, the Board may loan bonds, stocks, or other securities provided at least 102% of the full market value of the security loaned is collateralized by cash or securities at the time the loan is executed.

At all times during the term of each loan, the collateral shall be equal to not less than 100% of the full market value calculated on the total value of all securities on loan.

Investment Return History

ATRS Total Return by Year



ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

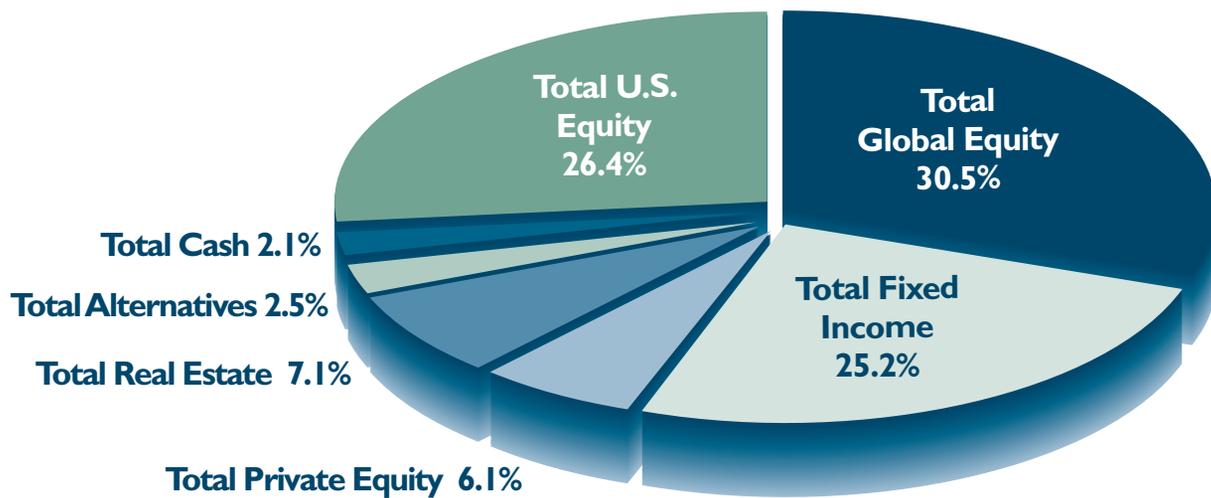
Asset Allocation Analysis

As of June 30, 2008

Asset Class	Market Value (\$ in thousands)	Current %
Total U.S. Equity	\$2,871,323	26.4%
Total Global Equity	3,319,717	30.5%
Total Fixed Income	2,738,118	25.2%
Total Private Equity	667,050	6.1%
Total Real Estate	774,340	7.1%
Total Alternatives	267,384	2.5%
Total Cash	233,406	2.1%
	<u>\$10,871,338</u>	<u>100.0%</u>

Current Allocation by Asset Class

As of June 30, 2008



ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Investment Results

Returns for Period Ended June 30, 2008

The table below details the rates of return for the System's Investment managers over various time periods ending June 30, 2008. Note that the Jacobs Levy I30/30 strategy and Relational Investors, did not yet experience a full fiscal year of returns. The Appendix at the end of this document provides a description of the benchmarks used for each manager as of the end of the fiscal year.

	1 Year	3 Years	5 Years
Total Fund	-3.7%	8.9%	11.0%
Performance Benchmark	-4.7	7.4	9.6
LARGE CAP GROWTH EQUITY			
T. Rowe Price	-8.0	—	—
Russell 1000 Growth Index	-6.0	—	—
LARGE CAP VALUE EQUITY			
Oppenheimer	-31.7	-2.4	4.2
Russell 1000 Value Index	-18.8	3.5	8.9
SMALL CAP VALUE EQUITY			
Kennedy Capital Management	-8.2	10.5	17.8
Daruma Asset Management	-14.9	6.3	12.6
Russell 2000 Value Index	-21.6	1.4	10.0
SMALL CAP GROWTH EQUITY			
Stephens Investment Management	-9.1	—	—
ING Investment Management	-6.3	9.3	11.5
Russell 2000 Growth Index	-10.8	6.1	10.4
ALL CAP DOMESTIC EQUITY			
ICC Capital Management	-11.1	12.7	15.6
Performance Benchmark ¹	-12.3	4.8	8.2
Jacobs Levy	-9.9	—	—
Performance Benchmark	-8.0	—	—
Jacobs Levy I30/30	—	—	—
Russell 3000 Index	—	—	—
Relational Investors	—	—	—
DJ Wilshire 5000 Index	—	—	—
CONVERTIBLES			
Nicholas Applegate	0.8%	10.9%	11.7%
Performance Benchmark ¹	-6.5	5.0	5.9

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

SCHEDULE OF INVESTMENT RESULTS (continued)

The table below details the rates of return for the System's investment managers over various time periods ending June 30, 2008. Note that the global equity asset class was established in October of 2007, and did not yet experience a full fiscal year of results.

	1 Year	3 Years	5 Years
GLOBAL EQUITY MANAGERS			
SSgA Global Index	—	—	—
MSCI All Country World IMI	—	—	—
Capital Guardian	-7.6	14.5	—
Performance Benchmark	-10.4	12.9	—
UBS Global Asset Management	-7.2	12.8	15.9
Performance Benchmark ²	-8.7	14.8	18.2
Wellington GRE	-9.3	14.0	—
Performance Benchmark	-7.2	15.4	—
Wellington Opportunistic	—	—	—
Performance Benchmark	—	—	—
FIXED INCOME MANAGERS			
Western Asset Management	2.2	2.9	3.7
Performance Benchmark ³	6.2	4.1	4.0

The table below details the rates of return for the System's investment managers for the period ending June 30, 2008. Note that the Western Absolute Return, Blackrock FIGO, and PIMCO PARS II strategies did not yet experience a full fiscal year of returns.

	1 Year	3 Years	5 Years
FIXED INCOME MANAGERS			
SSgA Bond Market Index	7.2	4.1	—
Lehman Brothers Bond Index	7.1	4.1	—
BlackRock	7.7	4.6	—
PIMCO	9.2	5.0	—
Performance Benchmark ¹	6.2	4.1	—
Western Absolute Return	—	—	—
Blackrock FIGO	—	—	—
PIMCO PARS II	—	—	—
LIBOR	—	—	—
ALTERNATIVE INVESTMENTS			
Total Real Estate	28.6	26.2	19.6
NCREIF NPI	17.2	18.0	14.4
Total Private Equity	27.0	31.8	23.6
Private Equity Policy	22.9	15.0	14.2
ARKANSAS RELATED	(0.1)	1.0	2.6

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

SCHEDULE OF INVESTMENT RESULTS (continued)

The table below details the rates of return for the System's investment managers for the period ending June 30, 2008.

INDIVIDUAL PARTNERSHIPS	Inception Date	Annualized Internal Rate of Return
Mezzanine		
Blackstone Mezzanine Partners	11/30/1999	10.9
DLJ Investment Partners II	10/31/1999	11.2
Domestic Private Equity		
Boston Ventures VII		-23.0%
Hicks Muse Tate & Furst Fund III	2/28/1997	0.3
Hicks Muse Tate & Furst Fund IV	7/31/1998	(8.6)
Hicks Muse Tate & Furst Fund V	11/31/2000	19.7
Oak Hill Capital Partners	3/31/1999	10.7
Cypress	5/31/1999	(1.4)
Diamond State Ventures	3/31/2000	6.4
DLJ Merchant III	8/31/2000	21.4
21 st Century Group Equity Fund	4/30/2000	3.7
DLJ Real Estate Capital Partners II	9/30/1999	21.5
Foreign Private Equity		
Doughty Hanson-Fund III	10/31/1997	18.1
Doughty-Hanson Tech I	1/31/2000	2.1
Cinven Funds	4/30/1998	9.9
LIMITED PARTNERSHIPS		
Real Estate		
Doughty-Hanson-Euro real estate	6/30/1999	29.4
Westbrook Fund II	4/30/1997	13.8
Westbrook Fund III	8/31/1998	9.2
Westbrook IV	4/30/2001	21.0
Westbrook SHP	10/31/1999	2.5
Olympus	7/31/2000	(1.9)
Fidelity RE Growth Fund III	3/31/2008	(48.7)
ING Clarion DOF II	12/31/2007	(48.9)
Rothschild FARS V	3/31/2008	(52.8)
CBRE SP U.S. Opportunity V	3/31/2008	IRR could not yet be calculated
DLJ Real Estate Capital Partners	9/30/1999	21.4
O'Connor NAPP II	3/31/2008	(22.2)
Wachovia Timberland	1/31/1998	8.1
Wachovia Timberland II	10/31/1999	8.7

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

SCHEDULE OF INVESTMENT RESULTS (continued)

The table below details the rates of return for the System's investment managers for the period ending June 30, 2008.

Wachovia Timberland II	10/31/1999	8.7
------------------------	------------	-----

OPEN-END FUNDS

1 Year Rate of Return

PRISA	6/30/2005	7.1
UBS	3/31/2006	4.2
JP Morgan Strategic Property	3/31/2007	8.4
JP Morgan Special Situation Property	3/31/2007	3.6

¹ Nicholas Applegate Performance Benchmark is the Merrill Lynch Convertible Securities (All Quality) Index. Prior to January 1, 2005, it was the CSFB Convertible Securities Index. Prior to May 1, 2004, it was a blend of 90% CSFB Convertible Securities Index and 10% Salomon High Yield Market Index. Prior to November 1, 2000, the benchmark was the CSFB Convertible Securities Index.

² UBS Performance Benchmark represents the MSCI All Country World Ex-U.S. Index beginning March 1, 2004. Returns through February 29, 2004 represent the MSCI World Ex-U.S. Index.

³ Western Asset Performance Benchmark and Fixed Income Performance Benchmark - As of March 1, 2004 the benchmark was the Lehman Brothers Universal Bond Index. Prior to March 1, 2004 it consisted of the Lehman Brothers Aggregate Bond Index.

DESCRIPTION OF BENCHMARKS

Total Fund - The Performance Benchmark for the Total Fund represents the performance of the asset class benchmarks as a weighted average of the Target Policy Allocations approved by the investment committee. The components of the benchmark are shown in the table below. Returns prior to September 30, 1996, consist of the actual allocations to the seven different asset classes included in the Arkansas Teacher Retirement System over time. The benchmarks used for each asset class are noted below.

Date	DJ Wilshire 5000 Index	Russell 3000 Index	MSCI ACW ex-US Index	MSCI ACWI	LB Universal Bond Index	LB Aggregate Bond Index	Alternative Policy
10/31/2007 - 12/31/2007	25.0%	—	—	30.0%	20.0%	—	25.0%
03/31/2004 - 09/30/2007	40.0%	—	17.5%	—	25.0%	—	17.5%
06/30/2003 - 02/29/2004	40.0%	—	17.5%	—	—	25.0%	17.5%
10/31/2001 - 07/31/2003	—	40.0%	17.5%	—	—	25.0%	17.5%
08/31/1998 - 09/30/2001	—	40.0%	17.0%	—	—	28.0%	15.0%
10/31/1996 - 07/31/1998	—	40.0%	20.0%	—	—	28.0%	12.0%

* The alternative benchmark represents Private Equity, Real Estate, Timberland, and Arkansas-related Investments. The benchmark is comprised of 34.3% of the DJ Wilshire 5000 + a 2% premium per year, 28.6% of the Lehman Brothers Mortgage Bond Index, 8.6% of the NCREIF South Timberland Index and 28.6% of the NCREIF Index. Prior to July 31, 2003 the alternative benchmark consisted of 57.0% of the Russell 3000 + a 2% Premium per year, 8.5% of the NCREIF Southeast Timberland Index, 28.5% of the Real Estate Index, 6% of the EnnisKnupp STIF Index.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

DESCRIPTION OF BENCHMARKS (continued)

U.S. Equity - The DJ Wilshire 5000 Stock Index.

Non-U.S. Equity - The MSCI All Country World Ex-U.S. Index.

Global Equity - The MSCI All Country World Index.

Fixed Income - The Lehman Brothers Universal Bond Index as of March 1, 2004.

Alternatives - The DJ Wilshire 5000 Stock Index plus 2.0% per year.

Real Estate - The NCREIF Index.

Timberland - The South Timberland NCREIF Index.

Cash Equivalents - The Citigroup 90 day T-bill.

Citigroup 90 day T-bill Index - Treasury bill rates of return, as reported by Citigroup (Salomon Smith Barney), for bills with a maximum time remaining to maturity of 90 days.

Lehman Brothers Aggregate Bond Index - A market-value weighted index consisting of the Lehman Brothers Corporate, Government and Mortgage-Backed Securities Indices. The Index also includes credit card-, auto- and home equity loan-backed securities, and is the broadest available measure of the aggregate U.S. fixed income market.

Lehman Brothers Universal Bond Index - A market-value weighted index consisting of the components of the Lehman Aggregate Bond Index, plus EuroDollar bonds, emerging markets bonds, 144A fixed income securities, and U.S. credit high yield securities.

Lehman Brothers Mortgage Index - A market value-weighted index consisting of the mortgage pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

MSCI All Country World ex-U.S. Index - A capitalization-weighted index of stocks representing 48 developed and emerging country markets, excluding the U.S. market.

MSCI All Country World Index - A capitalization-weighted index of stocks representing 48 developed and emerging country markets.

MSCI Europe, Australasia, Far East (EAFE) Non-U.S. Stock Index - A capitalization-weighted index of stocks representing 21 developed and emerging country markets in Europe, Australia, Asia and the Far East.

MSCI World Index - A capitalization-weighted index of stocks representing 22 developed stock markets in Europe, Asia and Canada.

NCREIF Index - The National Council of Real Estate Investment Fiduciaries (NCREIF) Net Property Index is an unlevered, market-value weighted Index consisting of \$128 billion in domestic institutional real estate assets. The Index is representative of the national real estate market, across all property types and regions.

Jacobs Levy Performance Benchmark - On January 1, 2008, the benchmark for the portfolio was changed to the Russell 3000 Index. Prior to January 1, 2008, the portfolio benchmark was the Russell 1000 Growth Index.

ICC Capital Management Performance Benchmark - On October 1, 2007, the benchmark for ICC Capital Management was changed to the Russell 3000 Index. Prior to October 1, 2007, the portfolio benchmark was the Russell 1000 Index.

Nicholas Applegate Performance Benchmark - On January 1, 2005, the benchmark for the portfolio was changed to the Merrill Lynch Convertible Bond (All Quality) Index. Prior to January 1, 2005, the performance benchmark for the Nicholas Applegate portfolio was the CSFB Convertible Securities Index. Prior to May 1, 2004, the performance benchmark consisted of 90% CSFB Convertible Securities Index and 10% Salomon High Yield Index.

Capital Guardian Performance Benchmark - On November 1, 2007, the portfolio benchmark was changed to the MSCI All Country World Index. Prior to November 1, 2007, the benchmark was the MSCI EAFE Index.

UBS Performance Benchmark - On February 1, 2008, the UBS Performance Benchmark was changed to the MSCI All Country World Index. Prior to February 1, 2008, the portfolio benchmark was the MSCI All Country World ex-U.S. Index.

Wellington Performance Benchmark - On January 1, 2008, the portfolio was changed to the MSCI All Country World Index.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Prior to January 1, 2008, the Wellington portfolio was the MSCI All Country World ex-U.S. Index.

DESCRIPTION OF BENCHMARKS (continued)

BlackRock Performance Benchmark - The Lehman Brothers Universal Bond Index as of March 1, 2004.

PIMCO Performance Benchmark - The Lehman Brothers Universal Bond Index as of March 1, 2004.

Western Asset Performance Benchmark - The Lehman Brothers Universal Bond Index as of March 1, 2004.

LIBOR Index - London Interbank Offered Rate. A filtered average of the world's most creditworthy banks' interbank deposit rates with maturities between overnight and one full year.

Russell 3000 Index - An index that measures the performance of the 3000 stocks that make up the Russell 1000 and Russell 2000 Indices.

Russell 1000 Index - An index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

Russell 1000 Value Index - An index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

Russell 2000 Index - An index that measures the performance of the smallest 2000 companies contained in the Russell 3000 Index.

Russell 2000 Growth Index - An index that measures the performance of those Russell 2000 companies with greater price-to-book ratios and greater I/B/E/S growth forecasts.

Russell 2000 Value Index - An index that measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

S&P 500 Stock Index - A capitalization-weighted stock index consisting of the 500 largest publicly traded U.S. stocks.

DJ Wilshire 5000 Stock Index - A capitalization-weighted stock index representing all U.S. common stocks traded regularly on the organized exchanges. The Index is the broadest measure of the aggregate U.S. stock market.

¹ Nicholas Applegate Performance Benchmark is the Merrill Lynch Convertible Securities (All Quality) Index. Prior to January 1, 2005, it was the CSFB Convertible Securities Index. Prior to May 1, 2004, it was a blend of 90% CSFB Convertible Securities Index and 10% Salomon High Yield Market Index. Prior to November 1, 2000, the benchmark was the CSFB Convertible Securities Index.

² UBS Performance Benchmark represents the MSCI All Country World Ex-U.S. Index beginning March 1, 2004. Returns through February 29, 2004 represent the MSCI World Ex-U.S. Index.

³ Western Asset Performance Benchmark and Fixed Income Performance Benchmark - As of March 1, 2004 the benchmark was the Lehman Brothers Universal Bond Index. Prior to March 1, 2004 it consisted of the Lehman Brothers Aggregate Bond Index.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Ten Largest Holdings

(By Market Value)

As of June 30, 2008

Fixed Income

Security Name	Market Value
WESTERN ASSET CORE	381,021,935
PIMCO PARS II	269,991,965
BLACKROCK FIGO	250,650,777
WESTERN ABSOLUTE RETURN	247,539,754
PIMCO PRV MORTGAGE SECTOR FUND (722)	215,732,859
PIMCO PRV GRD CORP SECTOR FUND (702)	82,282,130
PIMCO US GOVT SECTOR FUND (712)	66,876,305
PIMCO PRV INTL SECTOR FUND (780)	30,841,958
FNMA TBA JULY 30	28,937,734
FNMA POOL 889641	27,728,750

(A complete listing of portfolio holdings is available upon request.)

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Ten Largest Holdings (continued)

(By Market Value)

As of June 30, 2008

Domestic Equities

Security Name	Market Value
JACOBS LEVY I30 30	102,243,603.36
BARRICK GOLD CORP	74,963,525.00
GOLDCORP INC	50,145,237.00
COPART INC	34,099,707.00
FORD MTR CO DEL	32,627,442.12
LILLY ELI + CO	30,987,208.00
HEWLETT PACKARD CO	27,726,301.50
PALL CORP	27,583,552.00
COMCAST CORP NEW	26,235,528.97
VERIZON COMMUNICATIONS	26,066,471.40

(A complete listing of portfolio holdings is available upon request.)

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Ten Largest Holdings (continued)

(By Market Value)

As of June 30, 2008

Global Investments

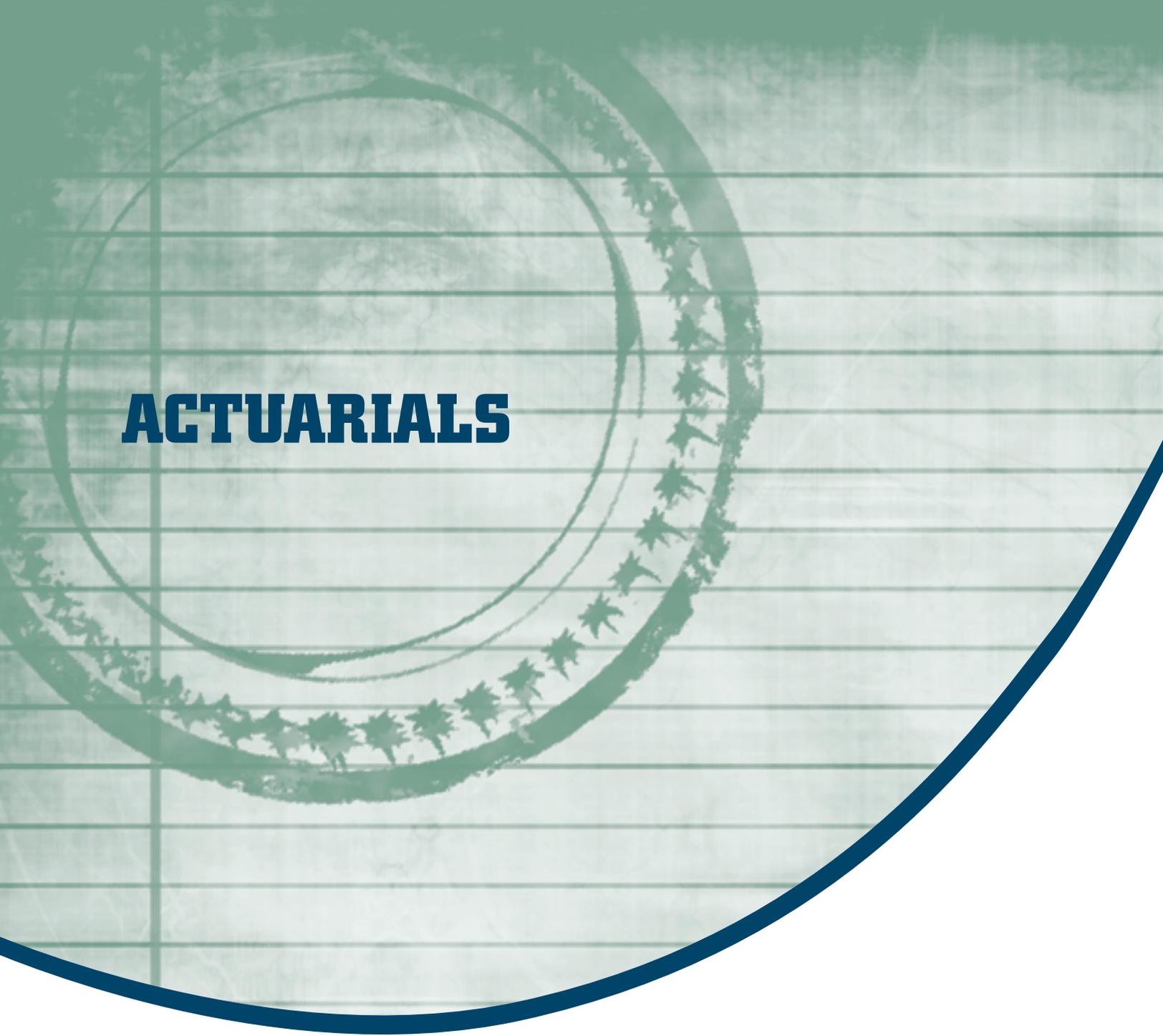
Security Name	Market Value
TOTAL SA	17,944,865.20
ARCELORMITTAL	12,664,505.22
E ON AG	10,176,503.04
TULLOW OIL	10,054,645.21
VODAFONE GROUP	9,285,917.67
JAPAN TOBACCO INC	9,268,968.44
HONDA MOTOR CO	8,993,924.81
TESCO	8,472,516.28
NOMURA HOLDINGS	8,467,089.29
NESTLE SA	8,250,431.87

(A complete listing of portfolio holdings is available upon request.)

Arkansas Related Investments

Security Name	Market Value
LINDSEY PARTNERSHIPS	42,428,103
WOODLAND HEIGHTS	35,200,000
PEABODY HOTEL	25,062,992
VICTORY BUILDING	18,290,000
CHENAL RETIREMENT VILLAGE	12,550,571
AR DEPT OF EDUCATION-MORTGAGE LOAN	9,606,151
AMERICAN CENTER	9,553,035
SOUTHCENTER SHOPPING CENTER	7,297,290
AR INSURANCE BUILDING	4,758,324
STATION APARTMENTS	4,501,347

(A complete listing of portfolio holdings is available upon request.)



ACTUARIALS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Actuary's Certification Letter

GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

One Towne Square | Suite 800 | Southfield, Michigan 48076 | 248-799-9000 | 800-521-0498 | fax 248-799-9020

January 20, 2009

Board of Trustees
Arkansas Teacher Retirement System
1400 West Third
Little Rock, Arkansas 72201

Dear Board Members:

The basic funding objective of the Arkansas Teacher Retirement System (ATRS) is to establish and receive contributions which:

- When expressed in terms of the percentage of active member payroll, will remain approximately level from generation to generation, and
- When combined with present assets and future investment return, will be sufficient to meet the financial obligations of ATRS to present and future retirees and beneficiaries.

The progress being made toward the realization of the financing objectives of the System through June 30, 2008, is illustrated in the attached Exhibits 1 and 2. The funding objective is currently being realized. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the cost assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll. The actuarial valuations are performed each year and the most recent valuations were completed based upon census data, asset data, and plan provisions as of June 30, 2008.

The System's administrative staff provides the actuary with data for the actuarial valuations. The actuary relies on the census data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. Asset information was accepted without further audit.

The figures disclosed in the Supplementary Schedules to the Financial Section were provided by Gabriel, Roeder, Smith & Company, as were the Notes to Trend Data. In addition, Gabriel, Roeder, Smith & Company was responsible for the following schedules found in the Actuarial Section:

Computed Actuarial Liabilities
Employer Contribution Rate Computed as of June 30, 2008
Active Members in Valuation Data
Retirees and Beneficiaries added to and removed from rolls

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Solvency Test

Board of Trustees

January 20, 2009

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Summary of Actuarial Assumptions and Methods

Single Life Retirement Values

Probabilities of Retirement for Members

Assumed Duration in T-DROP for Members

Teachers Separations and Individual Pay Increases

Non-Teachers Separations and Individual Pay Increases

Analysis of Financial Experience

Comments and Conclusion

Schedule of Funding Progress

Schedule of Employer Contributions

Schedule of Retired Members by Benefit Type

Schedule of Average Benefit Payments

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2008 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1997-2002 period.

Even though these are difficult economic times, the Arkansas Teacher Retirement System remains strong with an 84.9% funded position as of June 30, 2008, The amortization period as of June 30, 2008 is 21.0 years. However, it is possible that the next valuation will show a reduced funding ratio and an increased period because of the economic issues that are affecting the entire country.

Based upon the results of the June 30, 2008 valuations, we are pleased to report to the Board of Trustees that the Arkansas Teacher Retirement System is meeting its basic financial objective and is in accordance with actuarial principles of level percent of payroll financing.

Respectfully Submitted,



Judith A. Kermans, E.A., M.A.A.A.



Brian B. Murphy, F.S.A., M.A.A.A.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Exhibit I Computed Actuarial Liabilities

As of June 30, 2008

	(1) Total Present Value	Entry Age Actuarial Cost Method (2) Portion Covered By Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1)-(2)
Actuarial Present Value of Age and service retirement and T-DROP allowances based on Total service likely to be rendered by present active and T-DROP members	\$ 9,442,362,883	\$2,316,528,734	\$ 7,125,834,149
Vested Deferred Benefits likely to be paid present active and inactive members	880,127,670	312,786,194	567,341,476
Survivor benefits expected to be paid on behalf of present active members	143,937,046	61,684,685	82,252,361
Disability Benefits expected to be paid on behalf of present active members	225,890,397	129,369,923	96,520,474
Refunds of Member contributions expected to be paid on behalf of Present active members	17,901,831	99,340,205	(81,438,374)
Benefits payable to present retirees and beneficiaries	5,457,834,487	0	5,457,834,487
Lump Sum Death benefits payable to present retirees and beneficiaries	85,841,324	0	85,841,324
Total	\$16,253,895,638	\$2,919,709,741	\$13,334,185,897
Applicable Assets	11,319,195,490	0	11,319,195,490
Liabilities to be Covered by Future Contributions	\$ 4,934,700,148	\$2,919,709,741	\$ 2,014,990,407

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Exhibit 2 Employer Contribution Rate

Computed as of June 30, 2008

Computed Contributions for	Percents of Active Member Full Payroll			Prior Year
	Teachers	Support	Combined	
Normal Cost				
Age & Service Annuities	10.85%	8.42%	10.13%	10.06%
Deferred Annuities	1.29%	1.60%	1.38%	1.38%
Survivor Benefits	0.30%	0.25%	0.29%	0.28%
Disability Benefits	0.62%	0.52%	0.59%	0.59%
Refunds of Member Contributions	0.38%	0.71%	0.48%	0.46%
Total	13.44%	11.50%	12.87%	12.77%
Average Member Contributions	4.91%	3.66%	4.54%	4.44%
Net Employer Normal Cost	8.53%	7.84%	8.33%	8.33%
Unfunded Actuarial Accrued Liabilities			5.67%	5.67%
Employer Contribution Rate			14.00%	14.00%
Amortization Years			21.0	19.1

The amortization period is the number of years it will take to pay off the unfunded liability of \$2.0 billion assuming that the employer contribution rate remains at the 14% of payroll level. In recent times the period has varied from a low of 4 years to a high of 125 years. Given the investment loss that occurred during fiscal year 2008 and considering the current economic environment, it is very likely that the amortization period will exceed 30 years in the next valuation.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Active Member Valuation Data

Valuation Date	Active Members in Valuation		Average Annual Pay	
	Number	Annual Payroll	Amount	% Change
June 30				
2008	70,172	\$2,268	\$32,319	2.1%
2007	69,226	2,191	31,645	3.0%
2006	67,710	2,080	30,714	3.0%
2005	65,793	1,962	29,826	7.8%
2004	63,185	1,748	27,660	2.6%
2003	62,432	1,683	26,963	6.3%
2002	62,011	1,628	26,254	3.5%
2001	61,389	1,557	25,365	2.7%
2000	60,147	1,485	24,696	2.8%
2000	60,147	1,485	24,696	2.8%
1999	59,499	1,429	24,019	2.7%
1998	58,528	1,368	23,380	2.3%
1997	56,997	1,302	22,847	1.7%
1996	56,100	1,260	22,463	7.2%

Schedule of Retirees and Beneficiaries Added to and Removed From Rolls

Year	Estimated Number		Total Retirees	Annual Allowances (Millions)	% Increase in Annual Allowances	Average Annual Allowances
	Added	Removed				
2008	1,703	513	26,801	\$515.56	6.4%	\$19,237
2007	2,017	559	25,611	484.55	7.7%	18,920
2006	1,958	485	24,153	449.77	8.4%	18,622
2005	1,822	570	22,680	415.04	7.5%	18,300
2004	1,692	535	21,428	386.23	7.3%	18,025
2003	1,621	548	20,272	360.00	7.7%	17,759
2002	1,989	568	19,199	334.15	8.1%	17,404
2001	1,571	450	17,778	309.03	10.3%	17,383
2000	1,249	479	16,657	280.14	12.6%	16,818
1999	1,582	497	15,887	248.75	12.9%	15,658
1998	809	240	14,802	220.38	13.1%	14,888
1997	1,049	475	14,233	194.90	14.3%	13,694
1996	1,107	654	13,659	170.59	8.9%	12,489

Total Retirees does not include any members who are currently participating in T-Drop.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Solvency Test

The ATRS funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will **pay all promised benefits when due - the ultimate test of financial soundness**. Testing for level contribution rates is **the** long term test.

A solvency test is one means of checking a system's progress under its funding program. In a solvency test, the plan's present assets (cash and investments) are compared with: 1) Member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is unusual.

The schedule below illustrates the history of liability 3 of the System and is indicative of the ATRS objective of following the discipline of level percent of payroll financing.

Val. Date June 30	(1) Member Contrib.	(2) Retirees and Benef.	(3) Active and Inactive Members (Employer Financed Portion)	Present Valuation Assets	Portion of Present Values Covered by Present Assets			Total
					(1)	(2)	(3)	
\$ Millions								
1991#*	\$344	\$ 985	\$1,433	\$2,434	100%	100%	77%	88%
1992#	367	1,077	1,885	2,729	100%	100%	68%	82%
1993#	388	1,207	2,117	3,051	100%	100%	69%	82%
1994	403	1,334	2,223	3,307	100%	100%	71%	84%
1995*	415	1,488	2,354	3,626	100%	100%	73%	85%
1996	424	1,634	2,577	4,186	100%	100%	83%	90%
1997#	426	1,918	3,059	4,956	100%	100%	85%	92%
1998#	435	2,173	3,553	5,815	100%	100%	90%	94%
1999#	447	2,566	3,821	6,740	100%	100%	98%	99%
2000	454	2,804	4,322	7,620	100%	100%	101%	101%
2000#	454	2,888	4,537	7,620	100%	100%	94%	97%
2001#	470	3,200	4,891	8,166	100%	100%	92%	95%
2002*	490	3,464	5,216	8,328	100%	100%	84%	91%
2003#	521	3,706	5,218	8,113	100%	100%	74%	86%
2004#	547	3,985	5,518	8,424	100%	100%	71%	84%
2005	586	4,276	6,111	8,817	100%	100%	65%	80%
2006	630	4,617	6,376	9,332	100%	100%	64%	80%
2007#	679	4,960	6,690	10,519	100%	100%	73%	85%
2008	732	5,371	7,058	11,319	100%	100%	74%	86%
2008#	732	5,544	7,058	11,319	100%	100%	71%	85%

* Revised actuarial assumptions or methods.

Legislated benefit or contribution rate change.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Summary of Actuarial Assumptions and Methods

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age
Amortized Method	Level percent of payroll
Remaining Amortization Period	21.0 years
Asset Valuation Method	4-year smoothed market 80%/120% corridor
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increase	4.0% to 10.10%
Cost-of-living Adjustments	3% Simple
Includes wage inflation at	4%

An actuarial valuation is based upon an actuarial cost method, an asset valuation method, and actuarial assumptions. These methods and assumptions are chosen by the Board of Trustees after consultation with the Actuary and other advisors.

The actuarial cost method is called the Entry Age Actuarial Cost Method. This method is consistent with the Board's level percent of payroll funding objective. With this method, the level percent of payroll is determined that will fund a member's retirement benefit over the member's entire working lifetime, from date of hire (Entry Age) to date of exit from the active member population. Differences in the past between assumed and actual experience become part of unfunded actuarial accrued liabilities and are amortized with level percent of payroll contributions. This cost method was first used in the *June 30, 1986* valuation.

The asset valuation method is a four year smoothed market value method in which assumed investment return is recognized immediately each year and differences between actual and assumed investment return are phased in over a closed four year period. This asset valuation method is intended to give recognition to the long term accuracy of market values while filtering out and dampening short term market swings. This method was first used in the *June 30, 1995* valuation. It was modified in conjunction with the 2002 valuation to include a corridor.

The actuarial assumptions used in producing the valuation fall into two broad classes: economic assumptions, and demographic assumptions. Economic assumptions refer to long term rates of investment return, wage growth, covered population growth, and inflation. Demographic assumptions refer to retirement rates, turnover rates, disability rates, merit and seniority pay increases, and mortality rates. The current assumptions are based upon a 1997-2002 study of experience of the ATRS. The assumptions are reviewed from time to time to keep them reasonably current with expected experience.

Economic Assumptions

The investment return rate used in making the valuation was 8.0% per year, compounded annually (net after administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return over wage inflation is defined to be the portion of investment return which is more than the wage inflation rate. Considering wage inflation recognition of 4.0%, the 8.0% rate translates to an assumed real rate of return over wage inflation of 4.0%. This rate was first used for the *June 30, 2002* valuation.

Pay increase assumptions for individual active members are shown on Tables IV and V. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes wage inflation. These rates were first used for the *June 30, 2002* valuation. No specific *Price Inflation* is needed for this valuation. However, the wage inflation and interest rate assumptions would be compatible with a price inflation assumption of 3.0% or 3.5%. It is assumed that the 3% COLA will always be paid.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Summary of Actuarial Assumptions and Methods (continued)

The Active Member Group size is assumed to remain constant at its present level.

Total active member payroll is assumed to increase 4.0% a year, which is the portion of the individual pay increase assumptions attributable to wage inflation. This rate was first used for the **June 30, 2002** valuation.

Non-Economic Assumptions

The mortality table used to measure retired life mortality was the 1983 Group Annuity Mortality Table. Related values are shown on Table I. This table was first used for the June 30, 1998 valuation. It was reviewed as part of the June 30, 2002 valuation and deemed to still be an appropriate measurement of mortality for the plan. For disabled lives, the mortality table is set forward 5 years. This set forward of 5 years was first used for the **June 30, 2002** valuation.

The probabilities of retirement for members eligible to retire are shown on Tables II and III. The rates for full retirement were first used in the **June 30, 2005** valuation. The rates for reduced retirement were first used in the **June 30, 2002** valuation.

The probabilities of withdrawal from service, **death-in-service** and **disability** are shown for sample ages on Tables III and IV. The withdrawal and disability rates were first used in the **June 30, 2002** valuation. The death-in-service rates were first used in the **June 30, 2002** valuation.

The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary. Members whose dates of birth were not supplied were assumed to be 40 years old on the valuation date.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Table I
Single Life Retirement Values

Sample Attained Ages	Present Value of \$1.00 Monthly for Life		Present Value of \$1 Monthly for Life Increasing 3.0% Annually		Future Life Expectancy (years)		Percent Dying Within Next Year	
	Men	Women	Men	Women	Men	Women	Men	Women
40	\$142.98	\$147.82	\$184.74	\$193.70	38.46	44.52	0.12%	0.07%
45	138.18	144.67	176.24	187.61	33.74	39.69	0.22%	0.10%
50	132.10	140.42	165.94	179.79	29.18	34.92	0.39%	0.16%
55	124.57	134.74	153.75	169.90	24.82	30.24	0.61%	0.25%
60	115.04	127.24	139.16	157.58	20.64	25.67	0.92%	0.42%
65	103.26	117.61	122.19	142.67	16.69	21.29	1.56%	0.71%
70	90.18	105.53	104.27	125.11	13.18	17.13	2.75%	1.24%
75	76.40	91.57	86.27	105.96	10.15	13.37	4.46%	2.40%
80	62.65	77.16	69.17	87.10	7.64	10.20	7.41%	4.29%
85	50.59	62.99	54.72	69.36	5.73	7.58	11.48%	6.99%

Sample Attained Ages	Benefit Increasing 3.0% Yearly	Portion of Age 60 Lives Still Alive Men	Portion of Age 60 Lives Still Alive Women
60	\$100.00	100%	100%
65	115.00	94%	97%
70	130.00	85%	93%
75	145.00	72%	86%
80	160.00	54%	73%

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Table II
Probabilities of Retirement for Members

Retirement Ages	% of Active Participants Retiring with Unreduced Benefits			
	Education		Support	
	Male	Female	Male	Female
48	50%	40%	50%	30%
49	50%	40%	50%	30%
50	13%	8%	5%	9%
51	10%	8%	5%	9%
52	9%	8%	12%	8%
53	9%	9%	13%	12%
54	9%	9%	8%	10%
55	9%	11%	8%	12%
56	12%	11%	9%	11%
57	10%	13%	14%	9%
58	11%	13%	15%	16%
59	14%	18%	11%	28%
60	14%	17%	9%	14%
61	14%	15%	10%	14%
62	28%	25%	28%	21%
63	17%	18%	20%	17%
64	17%	17%	20%	16%
65	27%	38%	30%	30%
66	30%	30%	30%	30%
67	30%	30%	30%	30%
68	30%	30%	30%	30%
69	30%	30%	30%	30%
70	30%	30%	30%	30%
71	30%	30%	30%	30%
72	30%	30%	30%	30%
73	30%	30%	30%	30%
74	30%	30%	30%	30%
75	100%	100%	100%	100%

Probabilities of Reduced Retirement for Members

Retirement Ages	% of Active Participants Retiring with Reduced Benefits			
	Education		Support	
	Male	Female	Male	Female
50	2%	2%	2%	2%
51	2%	2%	2%	2%
52	3%	3%	3%	3%
53	4%	4%	4%	4%
54	4%	4%	4%	4%
55	6%	6%	6%	6%
56	9%	5%	9%	5%
57	9%	5%	9%	5%
58	9%	5%	9%	5%
59	9%	5%	9%	5%
60	100%	100%	100%	100%

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Table III **Probabilities of T-DROP for Members**

Members entering T-DROP are assumed to remain in T-DROP according to the following table:

Age	Assumed Duration Years
50-56	6
57	5
58	4
59+	3

Future T-DROP members are assumed to enter T-DROP at the time that is to their greatest financial advantage.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Table IV
Teachers Separations From Active Employment Before
Age and Service Retirement and Individual Pay Increase

Sample Ages	Service	Percent of Active Members Separating Within the Next Year					
		Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					32.00%	25.00%
	1					15.00%	12.00%
	2					11.00%	9.00%
	3					7.50%	9.00%
	4					5.00%	7.00%
25	5 & Up	0.02%	0.01%	0.10%	0.09%	4.60%	4.84%
30		0.03%	0.02%	0.08%	0.07%	3.94%	4.40%
35		0.04%	0.02%	0.08%	0.07%	3.20%	3.10%
40		0.06%	0.03%	0.14%	0.13%	2.70%	2.20%
45		0.11%	0.05%	0.24%	0.22%	2.08%	2.00%
50		0.20%	0.08%	0.53%	0.47%	1.62%	1.70%
55		0.31%	0.13%	0.88%	0.79%	1.50%	1.50%
60		0.46%	0.21%	1.00%	0.90%	1.50%	1.50%
65		0.78%	0.35%	1.00%	0.90%	1.50%	1.50%

Pay Increase Assumptions For an Individual Member

Age	Merit & Seniority	Base (Economic)	Increase Next Year
20	5.4%	4.0%	9.4%
25	4.4%	4.0%	8.4%
30	3.4%	4.0%	7.4%
35	2.4%	4.0%	6.4%
40	1.7%	4.0%	5.7%
45	1.2%	4.0%	5.2%
50	0.8%	4.0%	4.8%
55	0.4%	4.0%	4.4%
60	0.3%	4.0%	4.3%
65	0.3%	4.0%	4.3%

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Table V
Non-Teachers Separations From Active Employment Before Age and Service Retirement and Individual Pay Increase

Sample Ages	Service	Percent of Active Members Separating Within the Next Year					
		Death		Disability		Other	
		Men	Women	Men	Women	Men	Women
	0					40.00%	40.00%
	1					30.00%	25.00%
	2					22.00%	18.00%
	3					18.00%	14.00%
	4					13.00%	11.00%
25	5 & Up	0.02%	0.01%	0.10%	0.08%	12.00%	11.00%
30		0.03%	0.02%	0.08%	0.07%	10.80%	7.60%
35		0.04%	0.02%	0.08%	0.07%	8.20%	5.40%
40		0.06%	0.03%	0.14%	0.12%	5.80%	4.70%
45		0.11%	0.05%	0.24%	0.19%	4.10%	4.20%
50		0.20%	0.08%	0.53%	0.42%	2.90%	2.80%
55		0.31%	0.13%	0.88%	0.70%	1.90%	1.70%
60		0.46%	0.21%	1.00%	0.80%	1.50%	1.50%
65		0.78%	0.35%	1.00%	0.80%	1.50%	1.50%

Pay Increase Assumptions For an Individual Member

Age	Merit & Seniority	Base (Economic)	Increase Next Year
20	6.1%	4.0%	10.1%
25	5.2%	4.0%	9.2%
30	4.2%	4.0%	8.2%
35	3.6%	4.0%	7.6%
40	2.9%	4.0%	6.9%
45	1.5%	4.0%	5.5%
50	0.6%	4.0%	4.6%
55	0.2%	4.0%	4.2%
60	0.0%	4.0%	4.0%
65	0.0%	4.0%	4.0%

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Analysis of Financial Experience

Type of Risk Area	2004	Gain (Loss) For Year Ended (\$ Millions)			
		2005	2006	2007	2008
ECONOMIC RISK AREAS					
Pay increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$27.7	\$(173.5)	\$3.9	\$12.5	\$99.2
Gross Investment Return. If there is greater investment return than assumed, there is a gain. If less return, a loss.	(218.6)	(193.0)	(76.4)	564.2	(98.4)
NON-ECONOMIC RISK AREAS					
Retirements and T-Drop. If members retire at older ages, there is a gain. If younger ages, a loss.	6.1	(0.4)	(4.1)	3.5	14.6
Disability Retirements. If there are fewer disabilities than assumed, there is a gain. If more, a loss.	(1.6)	0.5	1.2	2.3	2.4
Death-in-Service Benefits. If there are fewer claims than assumed, there is a gain. If more, a loss.	1.1	0.5	0.6	0.6	1.2
Withdrawal. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	(5.9)	(11.1)	(11.8)	(10.7)	9.9
Death After Retirement. If there is higher mortality than assumed, there is a gain. If lower mortality, a loss.	(2.6)	(0.7)	(3.3)	(11.2)	(3.2)
TOTAL	\$(193.8)	\$(377.7)	\$(89.9)	\$561.2	\$222.5

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Comments

General Financial Objective. Section 24-3-103 of the Arkansas Code provides as follows (emphasis added):

“6.01. (1) The general financial objective of each Arkansas public employee retirement plan shall be to **establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens.** More specifically, contributions received each year shall be sufficient both to (i) fully cover the costs of benefit commitments being made to members for their service being rendered in such year and (ii) make a level payment which if paid annually over a reasonable period of future years will fully cover the unfunded costs of benefit commitments for service previously rendered”

Arkansas Teacher Retirement System Status. Based upon the results of June 30, 2008 actuarial valuations, ATRS is satisfying the financial objective of level-contribution-percent financing

Investment market experience for the year end June 30, 2008 was very unfavorable. The amortization period this year is 21.0 years, an increase from last year's 19.1-year period. The market value of assets exceeded the actuarial value of assets by \$301 million at the valuation.



STATISTICS

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Revenue By Source

Year Ending June 30	Member Contributions	Employer Contributions		Investment Income	Total
		Employer Contributions	% of Annual Covered Payroll		
2008	\$108,872,293	\$350,319,504	15.4%	(\$477,579,443)	(\$ 18,387,646)
2007	100,093,372	331,891,210	15.1%	1,892,393,365	2,324,377,947
2006	92,005,600	311,713,735	15.0%	1,173,286,760	1,577,006,095
2005	86,102,842	286,442,709	14.5%	779,443,553	1,151,989,104
2004	77,772,019	224,184,274	12.8%	1,195,341,063	1,497,297,356
2003	76,734,478	200,455,916	11.9%	72,259,296	349,449,690
2002	71,893,349	191,352,910	11.8%	(461,538,652)	(198,292,393)
2001	68,717,889	181,115,569	11.6%	(254,206,596)	(4,373,138)
2000	55,633,069	175,686,958	11.8%	638,534,760	869,854,787
1999	50,842,231	166,785,926	11.7%	781,034,414	998,662,571
1998	48,329,053	158,962,714	11.6%	921,429,638	1,128,721,405
1997	40,214,965	153,546,224	11.7%	1,000,201,271	1,193,962,460

Schedule of Expenses By Type

Year Ending June 30	Benefit Payments	Administrative Expenses	Refunds	Total
2008	\$587,319,942	\$6,676,667	\$6,462,122	\$600,458,731
2007	545,220,337	5,854,557	5,179,850	556,254,744
2006	507,641,961	5,991,755	6,207,622	519,841,338
2005	451,978,547	6,454,762	4,413,077	462,846,386
2004	413,433,516	8,197,465	4,017,884	425,648,865
2003	383,071,936	7,973,933	3,585,188	394,631,057
2002	354,949,683	7,354,162	2,744,684	365,048,529
2001	323,392,426	8,254,731	2,975,138	334,622,295
2000	284,356,092	9,729,999	3,317,881	297,403,972
1999	243,710,242	4,344,055	3,405,210	251,459,507
1998	215,573,711	4,375,104	3,373,945	223,322,760
1997	191,717,604	3,705,351	3,933,212	199,356,167

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Benefit Expenses By Type

Year Ending June 30	2008	2007	2006	2005	2004	2003
Age and Service	\$459,079,932	\$426,379,481	\$395,446,232	\$363,872,024	\$338,817,041	\$315,456,745
Disability	26,073,257	24,531,282	23,489,045	22,637,834	20,968,493	19,836,787
Option	13,613,226	12,388,887	11,081,484	10,188,011	9,524,367	8,847,041
Survivor	6,684,337	6,545,304	5,925,441	5,677,528	5,585,284	5,503,873
Reciprocity	19,588,246	16,732,846	14,726,557	13,027,579	11,551,771	10,245,385
Active Members Death Benefit	381,089	950,829	658,633	831,792	575,813	713,094
T-DROP	57,617,146	53,462,931	51,961,787	31,457,198	22,950,458	18,600,700
Act 808	4,282,709	4,228,777	4,278,617	4,286,580	4,294,802	4,272,018
Total	\$587,319,942	\$545,220,337	\$507,567,796	\$451,978,546	\$414,268,026	\$383,475,643

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Retired Members By Type of Benefit

Monthly Benefit	Number of Retirants	Type of Retirement*					Life	Option Selected #		
		1	2	3	4	5		Opt. A	Opt. B	Opt. C
\$1-250	3,125	2,674	67	118	251	15	2,568	406	25	126
251-500	2,962	2,384	56	154	327	41	2,471	350	57	84
501-750	2,015	1,629	64	40	234	48	1,614	259	74	68
751-1,000	1,614	1,235	78	19	241	40	1,264	206	93	51
1,001-1,250	1,475	1,135	70	35	195	40	1,144	192	106	33
1,251-1,500	1,547	1,262	41	37	179	28	1,232	199	89	27
1,501-1,750	1,665	1,393	43	36	167	26	1,275	226	118	46
1,751-2,000	2,038	1,807	32	21	166	12	1,539	266	180	53
Over \$2,000	10,058	9,554	168	83	227	26	7,643	1,176	967	272
Total	26,499	23,074	619	543	1,987	276	20,750	3,280	1,709	760

* Type of Retirement

1. Normal retirement for age and service
2. Survivor payment - normal or early retirement
3. Survivor payment - death-in-service
4. Disability retirement
5. Survivor payment - disability retirement

Option Selected at Retirement

- Life - Straight life annuity
 Option A - 100% survivor annuity
 Option B - 50% survivor annuity
 Option C - annuity for 10 years certain and life thereafter

Excludes Act 793 and Act 808 retirees.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Average Benefit Payments

Retirement Effective Dates		Service at Retirement						
		0-4	5-9	10-14	15-19	20-24	25-29	30+
July 1, 1998 to June 30, 2008								
07/01/98 -06/30/99	Average Monthly Benefit	\$ 216	\$ 174	\$ 369	\$ 777	\$ 1,197	\$ 1,636	\$ 2,149
	Average Final Salary	\$23,052	\$13,734	\$19,411	\$26,758	\$32,278	\$35,179	\$36,306
	Number of Active Retirees	52	492	187	119	114	317	301
07/01/99 -06/30/00	Average Monthly Benefit	\$ 193	\$ 204	\$ 362	\$ 860	\$ 1,226	\$ 1,743	\$ 2,361
	Average Final Salary	\$25,045	\$13,612	\$17,288	\$28,523	\$30,543	\$36,513	\$37,919
	Number of Active Retirees	27	219	138	102	137	308	318
07/01/00 -06/30/01	Average Monthly Benefit	\$ 194	\$ 210	\$ 422	\$ 920	\$ 1,333	\$ 1,887	\$ 2,459
	Average Final Salary	\$21,910	\$14,772	\$19,899	\$31,531	\$33,529	\$39,490	\$39,512
	Number of Active Retirees	50	315	229	125	132	387	333
07/01/01 -06/30/02	Average Monthly Benefit	\$ 173	\$ 209	\$ 363	\$ 797	\$ 1,348	\$ 1,920	\$ 2,528
	Average Final Salary	\$31,558	\$13,507	\$17,606	\$27,482	\$34,586	\$39,498	\$40,211
	Number of Active Retirees	78	477	376	195	171	423	269
07/01/02 -06/30/03	Average Monthly Benefit	\$ 131	\$ 213	\$ 439	\$ 824	\$ 1,321	\$ 1,982	\$ 2,530
	Average Final Salary	\$25,178	\$16,577	\$21,197	\$28,856	\$34,031	\$40,871	\$39,797
	Number of Active Retirees	48	304	225	155	151	473	265
07/01/03 -06/30/04	Average Monthly Benefit	\$ 200	\$ 252	\$ 456	\$ 804	\$ 1,396	\$ 2,044	\$ 2,602
	Average Final Salary	\$26,511	\$17,293	\$21,690	\$29,722	\$37,471	\$41,637	\$41,256
	Number of Active Retirees	46	333	254	185	163	486	225
07/01/04 -06/30/05	Average Monthly Benefit	\$ 117	\$ 245	\$ 451	\$ 851	\$ 1,413	\$ 2,085	\$ 2,561
	Average Final Salary	\$21,778	\$17,230	\$21,509	\$31,146	\$38,529	\$42,106	\$39,786
	Number of Active Retirees	44	384	239	215	136	562	242
07/01/05 -06/30/06	Average Monthly Benefit	\$ 178	\$ 249	\$ 486	\$ 796	\$ 1,472	\$ 2,146	\$ 2,860
	Average Final Salary	\$23,915	\$17,531	\$24,252	\$29,291	\$39,726	\$43,432	\$42,735
	Number of Active Retirees	44	371	263	207	150	633	290
07/01/06 -06/30/07	Average Monthly Benefit	\$ 193	\$ 269	\$ 489	\$ 810	\$ 1,470	\$ 2,168	\$ 2,791
	Average Final Salary	\$30,693	\$19,693	\$24,448	\$29,479	\$40,437	\$43,736	\$43,192
	Number of Active Retirees	31	371	251	215	157	665	251
07/01/07 -06/30/08	Average Monthly Benefit	\$ 299	\$ 290	\$ 526	\$ 954	\$ 1,440	\$ 2,303	\$ 2,778
	Average Final Salary	\$25,406	\$20,153	\$25,808	\$36,169	\$41,295	\$45,077	\$42,414
	Number of Active Retirees	12	402	187	187	180	518	217

May include cases where the service was not reported.

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Participating Employers

As of June 30, 2008

Academics Plus Charter Sch	Bradford School Dist	Dover School Dist
Alma School Dist	Bradley School Dist	Drew Central Sch Dist
Alpena School Dist	Brinkley School Dist	Dumas School Dist
Ar Association Edu Admin	Brookland Sch Dist	Earle School Dist
Ar Dept Of Correction	Bryant School Dist	East Ar Comm College
Ar Dept Of Economic Dev	Buffalo Island Central	East End School Dist
Ar Dept Of Workforce Educ	Cabot School Dist	East Poinsett Sch Dist
Ar Educational Tv	Caddo Hills Sch Dist	El Dorado Sch Dist
Ar Rehabilitation Services	Calico Rock Sch Dist	Elkins School Dist
Ar River Ed Srvs Coop	Camden-Fairview Sch Dist	Emerson - Taylor Sch Dist
Ar School Boards Ins Trust	Carlisle Sch Dist	England School Dist
Ar School F/T Blind	Cave City Sch Dist	Eureka Springs Sch
Ar School F/T Deaf	Cedar Ridge School District	Farmington Sch Dist
Ar State Univ	Cedarville School District	Fayetteville Schools
Ar State Univ, Beebe	Centerpoint School Dist #43	Flippin School Dist
Ar State Univ, Newport	Charleston Sch Dist	Focus Learning Academy
Ar Teacher Ret Sys	Clarendon Sch Dist	Fordyce School Dist
Ar Tech University	Clarksville Sch Dist	Foreman School Dist
Ar Workforce Invest Board	Cleveland County Sch Dist	Forrest City Sch Dist
Arch Ford Coop	Clinton School Dist	Fort Smith Sch Dist
Arise Charter School	Concord School Dist	Fouke School Dist
Ark Northeastern College	Conway School Dist	Fountain Lake Sch
Arkadelphia Sch Dist	Conway Voc Ctr	Genoa Central School Dist. #1
Arkansas Activities	Corning School Dist	Gentry School Dist
Arkansas Easter Seals	Cossatot Com Col Of Uoa	Glen Rose Sch Dist
Armored School District	Cotter School Dist	Gosnell School Dist
Ashdown School Dist	County Line Sch Dist	Gravette School Dist
Asu Mountain Home Campus	Craighead Co Sd Exec Council	Great Rivers Ed Coop
Atkins School Dist	Cross Co Sch Dist	Green Forest Sch
Augusta School Dist	Crossett School Dist	Greenbrier Sch Dist
Bald Knob Sch Dist	Crowleys Ridge Coop	Greene Co Tech Sch
Barton-Lexa Sch Dist	Crowleys Ridge Tech Inst	Greenland Sch Dist
Batesville Sch Dist	Cushman School Dist	Greenwood Sch Dist
Bauxite School Dist	Cutter Morning Star	Gurdon School Dist
Bay School Dist	Danville School Dist	Guy-Perkins Sch Dist
Bearden School Dist	Dardanelle Sch Dist	Haas Hall Academy
Beebe School Dist	Dawson Educ Service Coop	Hackett School Dist
Benton County Sch Of Arts	Decatur School Dist	Hamburg School Dist
Benton School Dist	Deer/Mt. Judea School Dist	Hampton School Dist
Bentonville Sch Dist	Delight School Dist	Harmony Grove Sch
Bergman School Dist	Dept Of Higher Education	Harmony Grove School
Berryville Sch Dist	Dequeen School Dist	Harrisburg Schools
Bismarck School Dist	Dequeen-Mena Ed Co-Op	Harrison School Dist
Black River Technical Col	Dermott School Dist	Hartford School Dist
Blevins School Dist	Des Arc School Dist	Hazen School Dist
Blytheville Sch Dist	Dewitt School Dist	Heber Springs Sch
Booneville Sch Dist	Dierks School Dist	Hector School Dist
Boston Mts Ed Coop	Dollarway Sch Dist	Helena-West Helena

ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Participating Employers (continued)

As of June 30, 2008

Henderson State Univ	Mcgehee School Dist	Phillips Com Col-Dewitt
Hermitage Sch Dist	Melbourne Sch Dist	Phillips Comm Coll/Ua
Highland School Dist	Mena School Dist	Piggott School Dist
Hillcrest School District	Metropolitan Voc Ctr	Pine Bluff Sch Dist
Hope School Dist	Midland School Dist #19	Pocahontas Sch Dist
Horatio School Dist	Mid-South Community (Tech) Col	Pottsville Sch Dist
Hot Springs Sch Dist	Mineral Springs	Poyen School Dist
Hoxie School Dist	Monticello Sch Dist	Prairie Grove Sch
Hughes School Dist	Monticello Voc Ctr	Prescott School Dist
Huntsville Sch Dist	Mount Ida Sch Dist	Pulaski Co Sch Dist
Imboden Area Charter Sch	Mountain Home Sch	Pulaski Technical Col
Izard Co Cons School	Mountain Pine Sch	Quitman School Dist
Jackson County Sch Dist	Mountain View Sch	Rector School Dist #1
Jasper School Dist	Mountainburg Sch Dist	Rich Mtn Comm College
Jessieville Sch Dist	Mt Vernon-Enola Sch Dist	River Valley Tech(Voc)ctr
Jonesboro Sch Dist	Mulberry School Dist	Riverside School Dist
Jonesboro Voc Ctr	Murfreesboro Sch Dist	Riverside Vo-Tech School
Junction City Sch	Nashville Sch Dist	Riverview School Dist
Kipp Delta College Prep	National Park Comm College	Rogers School Dist
Kirby School Dist	Nemo Vista Sch Dist	Rose Bud School Dist
Lafayette County Sch Dist	Nettleton Sch Dist	Russellville Sch Dist
Laidlaw/Lr Trans	Nevada School Dist #1	Russellville Voc Ctr
Lake Hamilton Sch	Newport School Dist	Salem School Dist
Lakeside School Dist	Norfolk School Dist	Scranton School Dist
Lakeside School District	Norphlet School Dist	Se Arkansas Ed Coop
Lamar School Dist	North Ar (Comm Tech) College	Searcy County School Dist
Lavaca School Dist	North Central Career Ctr	Searcy School Dist
Lawrence County School Dist	North Central Educ Coop	Sheridan School Dist
Lead Hill Sch Dist	North Little Rock Sch Dist	Shirley School Dist
Lee County Schools	Northeast Ar Educ Coop	Siloam Springs Sch
Lincoln School Dist	Northwest Ar Ed Svc Coop	Sloan-Hendrix Sch Dist
Lisa Academy	Northwest Tech Inst	Smackover Sch Dist
Literacy Council Of Lonoke	Nw Ar Community College	So Ar Community College
Little Rock Sch Dist	Omaha School Dist	So Ar Developmental Ctr
Lonoke School Dist	Osceola School Dist	So Arkansas Univ - Camden
Magazine School Dist	Ouachita River School Dist	So Arkansas Univ
Magnet Cove Sch Dist	Ouachita School Dist	So Conway Co Sch Dist
Magnolia School Dist	Ouachita Technical Col	So Mississippi Co
Malvern School Dist	Ozark Mountain School Dist	South Central Svc Coop
Mammoth Spring Sch	Ozark School Dist	Southeast Arkansas (Tech) Col
Manila School Dist	Ozark Unlimited Res Coop	Southside Sch Dist
Mansfield Sch Dist	Ozarka College	Southside School Dist
Marion School Dist	Palestine-Wheatley Sch Dist	Spring Hill Sch Dist
Marked Tree Sch Dist	Pangburn School Dist	Springdale Sch Dist
Marmaduke Sch Dist	Paragould Sch-Dist	Star City Sch Dist
Marvell School Dist	Paris School Dist	Stephens School Dist
Mayflower Sch Dist	Parkers Chapel Sch	Strong School Dist
Maynard School Dist	Pea Ridge Sch Dist	Stuttgart Sch Dist
Mccrory School Dist	Perryville Sch Dist	Sw Arkansas Ed Coop

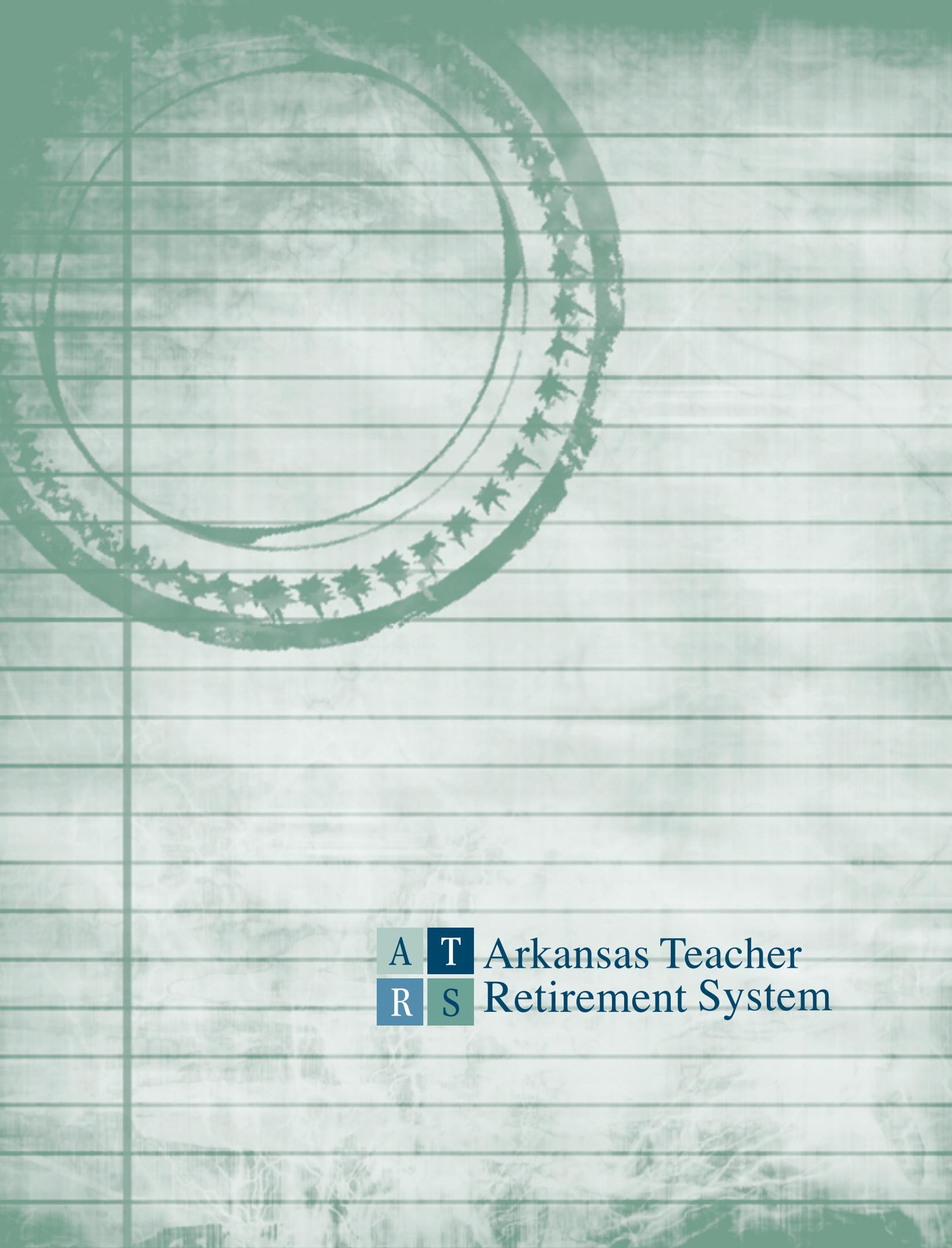
ARKANSAS TEACHER RETIREMENT SYSTEM

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2008

Schedule of Participating Employers (continued)

As of June 30, 2008

Texarkana Sch Dist
Texarkana Voc Ctr
Trumann School Dist
Turrell School Dist
Twin Rivers School District
Two Rivers School District
U Of Ar, Monticello
U Of Ar, Pine Bluff
Univ Of Ar-Fayetteville
Univ Of Ark Comm Coll, Hope
Univ Of Ar-Little Rock
Univ Of Central Ar
University Of Ar - Fort Smith
Uoa Com Col At Batesville
Uoa Com Col Morrilton
Uoa Of Medical Sciences
Uoa Sch Math,Science &arts
Valley Springs Sch
Valley View Sch Dist
Van Buren Sch Dist
Van-Cove School Dist
Vilonia School Dist
Viola School Dist
Waldron School Dist
Warren School Dist
Warren Voc Ctr
Watson Chapel Schools
Weiner School Dist
West Fork Sch Dist
West Memphis Sch Dist
West Side Sch Dist
Western Ar Educ Coop
Western Yell Co #9
Westside School Dist
Westside School Dist #40
White Co Central Sch Dist
White Co Sd Exec Council
White Hall Sch Dist
Wickes School Dist
Wilbur D Mills Ed Svs
Wonderview Sch Dist
Woodlawn School Dist
Wynne School Dist
Yellville-Summit Sch



A **T** Arkansas Teacher
R **S** Retirement System



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